

THE UNIVERSITY OF CHICAGO

Consolidated Financial Statements and
Supplemental University Information

June 30, 1999 and 1998

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 1999 and 1998

(in thousands of dollars)

| | 1999 | | | 1998 |
|--|-------------------|------------------|---------------------|---------------------|
| | <u>University</u> | <u>Hospitals</u> | <u>Consolidated</u> | <u>Consolidated</u> |
| Changes in unrestricted net assets: | | | | |
| Operating: | | | | |
| Revenue: | | | | |
| Tuition and fees – gross | \$ 271,177 | — | 271,177 | 253,005 |
| Less: | | | | |
| Undergraduate student aid | (34,196) | — | (34,196) | (32,554) |
| Graduate student aid | (74,946) | — | (74,946) | (70,484) |
| Tuition and fees – net | 162,035 | — | 162,035 | 149,967 |
| Government grants and contracts | 182,960 | — | 182,960 | 167,430 |
| Private gifts, grants, and contracts | 77,730 | 645 | 78,375 | 80,236 |
| Endowment payout | 81,473 | 3,692 | 85,165 | 74,889 |
| Earnings on other investments | 16,074 | 50,805 | 66,879 | 46,771 |
| Patient care | 127,632 | 588,277 | 715,909 | 709,710 |
| Auxiliaries | 117,816 | — | 117,816 | 115,827 |
| Other income | 81,847 | 25,483 | 107,330 | 110,239 |
| Total operating revenue | <u>847,567</u> | <u>668,902</u> | <u>1,516,469</u> | <u>1,455,069</u> |
| Expenses: | | | | |
| Compensation: | | | | |
| Academic salaries | 247,516 | — | 247,516 | 232,808 |
| Staff salaries | 196,148 | 281,989 | 478,137 | 468,979 |
| Benefits | 87,514 | 54,089 | 141,603 | 141,910 |
| Total compensation | <u>531,178</u> | <u>336,078</u> | <u>867,256</u> | <u>843,697</u> |
| Other operating expenses: | | | | |
| Utilities, alterations, and repairs | 22,593 | 11,173 | 33,766 | 31,222 |
| Depreciation | 43,147 | 40,647 | 83,794 | 78,692 |
| Interest | 18,057 | 15,629 | 33,686 | 31,164 |
| Supplies and services | 199,542 | 215,922 | 415,464 | 424,131 |
| Loss on debt refinancing | 6,043 | 14,692 | 20,735 | — |
| Insurance | 6,269 | 8,253 | 14,522 | 14,418 |
| Total other operating expenses | <u>295,651</u> | <u>306,316</u> | <u>601,967</u> | <u>579,627</u> |
| Total operating expenses | <u>826,829</u> | <u>642,394</u> | <u>1,469,223</u> | <u>1,423,324</u> |
| Loss from operation and sale of discontinued physician practice | <u>—</u> | <u>46,321</u> | <u>46,321</u> | <u>22,489</u> |
| Excess (deficiency) of operating revenue over expenses and loss from discontinued physician practice | <u>\$ 20,738</u> | <u>(19,813)</u> | <u>925</u> | <u>9,256</u> |

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 1999 and 1998

(in thousands of dollars)

| | 1999 | | | 1998 |
|--|---------------------|------------------|---------------------|---------------------|
| | <u>University</u> | <u>Hospitals</u> | <u>Consolidated</u> | <u>Consolidated</u> |
| Changes in unrestricted net assets: | | | | |
| Nonoperating: | | | | |
| Private gifts and grants for buildings and equipment | \$ 4,189 | — | 4,189 | 6,653 |
| Endowment payout | 87 | — | 87 | 96 |
| Investment gains (losses) | 248,532 | (6,969) | 241,563 | 280,367 |
| Other | 13,460 | (22,867) | (9,407) | (4,904) |
| | | | | |
| Change in unrestricted net assets from nonoperating activities | 266,268 | (29,836) | 236,432 | 282,212 |
| | | | | |
| Increase (decrease) in unrestricted net assets | 287,006 | (49,649) | 237,357 | 291,468 |
| Changes in temporarily restricted net assets: | | | | |
| Private gifts | 24,473 | 1,730 | 26,203 | 15,361 |
| Endowment payout | 55 | — | 55 | 57 |
| Investment gains | 534 | — | 534 | 2,122 |
| Other | (15,951) | (2,540) | (18,491) | (15,755) |
| | | | | |
| Increase (decrease) in temporarily restricted net assets | 9,111 | (810) | 8,301 | 1,785 |
| Changes in permanently restricted net assets: | | | | |
| Private gifts | 39,943 | 62 | 40,005 | 35,502 |
| Endowment payout | 1,147 | — | 1,147 | 1,025 |
| Investment gains | 10,010 | — | 10,010 | 13,870 |
| Other | (1,277) | (500) | (1,777) | (528) |
| | | | | |
| Increase (decrease) in permanently restricted net assets | 49,823 | (438) | 49,385 | 49,869 |
| | | | | |
| Increase (decrease) in net assets | 345,940 | (50,897) | 295,043 | 343,122 |
| Net assets at beginning of year | 2,852,458 | 426,206 | 3,278,664 | 2,935,542 |
| Net assets at end of year | <u>\$ 3,198,398</u> | <u>375,309</u> | <u>3,573,707</u> | <u>3,278,664</u> |

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 1999 and 1998

(in thousands of dollars)

| Assets | 1999 | | | 1998 |
|--|--------------|-----------|--------------|--------------|
| | University | Hospitals | Consolidated | Consolidated |
| Cash and cash equivalents | \$ 49,428 | 9,181 | 58,609 | 118,890 |
| Notes and accounts receivable | 193,784 | 129,818 | 323,602 | 240,893 |
| Inventories | 8,838 | 6,786 | 15,624 | 15,362 |
| Prepaid expenses and other assets | 90,587 | 50,264 | 140,851 | 149,402 |
| Pledges receivable | 49,445 | 1,734 | 51,179 | 38,717 |
| Investments | 3,093,960 | 351,683 | 3,445,643 | 3,001,759 |
| Land, buildings, equipment, and books | 540,773 | 386,324 | 927,097 | 876,022 |
| | \$ 4,026,815 | 935,790 | 4,962,605 | 4,441,045 |
| Liabilities and Net Assets | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 124,442 | 212,084 | 336,526 | 324,535 |
| Deferred revenue | 55,397 | — | 55,397 | 59,445 |
| Assets held in custody for others | 56,638 | — | 56,638 | 48,462 |
| Self-insurance liability | 98,195 | 17,484 | 115,679 | 111,961 |
| Notes and bonds payable | 457,166 | 330,913 | 788,079 | 581,929 |
| Refundable U.S. Government student loan funds | 36,579 | — | 36,579 | 36,049 |
| | 828,417 | 560,481 | 1,388,898 | 1,162,381 |
| Net assets: | | | | |
| Unrestricted | 2,581,316 | 365,611 | 2,946,927 | 2,709,570 |
| Temporarily restricted | 76,027 | 5,124 | 81,151 | 72,850 |
| Permanently restricted | 541,055 | 4,574 | 545,629 | 496,244 |
| | 3,198,398 | 375,309 | 3,573,707 | 3,278,664 |
| | \$ 4,026,815 | 935,790 | 4,962,605 | 4,441,045 |

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 1999 and 1998

(in thousands of dollars)

| | <u>1999</u> | | | <u>1998</u> |
|--|-------------------|------------------|---------------------|---------------------|
| | <u>University</u> | <u>Hospitals</u> | <u>Consolidated</u> | <u>Consolidated</u> |
| Cash flows from operating activities: | | | | |
| Increase (decrease) in net assets | \$ 345,940 | (50,897) | 295,043 | 343,122 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | | | |
| Depreciation | 43,147 | 40,647 | 83,794 | 80,216 |
| Loss from sale of discontinued physician practice | — | 27,014 | 27,014 | — |
| Loss on debt refinancing | 6,043 | 14,692 | 20,735 | — |
| Net (gain) loss on investments | (259,076) | 6,969 | (252,107) | (296,359) |
| Private gifts and grants restricted for long-term investment | (68,605) | (1,792) | (70,397) | (57,516) |
| Other nonoperating deductions – net | 2,479 | 25,907 | 28,386 | 20,009 |
| Pension income | (15,964) | — | (15,964) | (7,729) |
| Changes in assets and liabilities: | | | | |
| Notes and accounts receivable | (6,328) | (55,905) | (62,233) | 2,269 |
| Prepaid expenses and other assets | (5,677) | 2,916 | (2,761) | (12,387) |
| Accounts payable and other liabilities | 27,988 | (11,339) | 16,649 | 50,799 |
| Self-insurance liability | 1,175 | 2,543 | 3,718 | 8,282 |
| Total adjustments | (274,818) | 51,652 | (223,166) | (212,416) |
| Net cash provided by operating activities | 71,122 | 755 | 71,877 | 130,706 |
| Cash flows from investing activities: | | | | |
| Purchase of investments | (1,079,988) | (124,140) | (1,204,128) | (651,350) |
| Proceeds from sale of investments | 874,748 | 137,603 | 1,012,351 | 574,475 |
| Acquisition of land, buildings, equipment, and books | (88,587) | (49,487) | (138,074) | (111,460) |
| Disposal of land, buildings, equipment, and books | 3,014 | 191 | 3,205 | 1,643 |
| Loans disbursed | (50,271) | — | (50,271) | (42,421) |
| Principal collected on loans | 29,795 | — | 29,795 | 15,141 |
| Net cash used in investing activities | (311,289) | (35,833) | (347,122) | (213,972) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of notes and bonds payable | 253,655 | 156,049 | 409,704 | 41,378 |
| Retirement of long-term debt | (83,526) | (107,725) | (191,251) | — |
| Principal payments on notes and bonds payable | (27,361) | (5,677) | (33,038) | (15,636) |
| Proceeds from private gifts and grants restricted for long-term investment | 55,367 | 2,568 | 57,935 | 58,574 |
| Other nonoperating deductions – net | (2,479) | (25,907) | (28,386) | (20,009) |
| Net cash provided by financing activities | 195,656 | 19,308 | 214,964 | 64,307 |
| Decrease in cash and cash equivalents | (44,511) | (15,770) | (60,281) | (18,959) |
| Cash and cash equivalents at: | | | | |
| Beginning of year | 93,939 | 24,951 | 118,890 | 137,849 |
| End of year | \$ 49,428 | 9,181 | 58,609 | 118,890 |
| Supplemental disclosure of cash flow information – cash paid for interest | \$ 16,151 | 17,281 | 33,432 | 32,006 |

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

(1) Summary of Significant Accounting Policies

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 Hospitals (Hospitals) and other health care facilities located in the area.

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

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 Hospitals. The organization of the Hospitals and agreements between the University and the Hospitals are discussed in note 2.

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

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

- Unrestricted Net Assets – net assets that are not subject to donor-imposed restrictions, including the carrying value of all physical properties (land, building, equipment, and books). Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University – instruction, conduct of sponsored research, and provision of health care services. In addition to these exchange transactions, changes in this category of net assets include certain types of philanthropic support – namely, unrestricted gifts, including those designated by the Board to function as endowment, as well as restricted gifts whose donor-imposed restrictions were met during the fiscal year – and realized and unrealized gains and losses on endowment funds.

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June 30, 1999 and 1998

(in thousands of dollars)

- Temporarily Restricted Net Assets – net assets subject to donor-imposed restrictions that may or 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 restrictions have not been met, annuity and life income gifts and 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 are reported as reclassifications between the net asset classes and included in other.
- Permanently Restricted Net Assets – 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.

Gifts

Gifts, including unconditional pledges, are recognized 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 present value of the expected future cash flows; discounts are amortized to gift revenue consistent with donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Private gifts, grants, and contracts operating revenue for fiscal years 1999 and 1998 consists of the following:

| | 1999 | | | |
|--|-------------------|------------------|--------------|-------------|
| | University | Hospitals | Total | 1998 |
| Private gifts: | | | | |
| Unrestricted as to use | \$ 18,104 | 645 | 18,749 | 12,482 |
| Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue | 23,594 | — | 23,594 | 30,431 |
| Private grants and contracts | 36,032 | — | 36,032 | 37,323 |
| Total | \$ 77,730 | 645 | 78,375 | 80,236 |

Grants and Contracts

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 1999 and 1998 are \$32,394 and \$35,842, respectively, of private grant and contract receipts which have not been expended.

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(in thousands of dollars)

Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, 5% of a twelve quarter moving average of the market value of endowment investments is available each year for expenditure in the form of endowment payout. Change from the prior fiscal year's endowment payout is limited to a reduction of 4% with no limit on increases.

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

Endowment payout for fiscal years 1999 and 1998 consists of the following:

| | <u>1999</u> | | | |
|--|-------------------|------------------|---------------|---------------|
| | <u>University</u> | <u>Hospitals</u> | <u>Total</u> | <u>1998</u> |
| Interest, dividends, and rents | \$ 66,464 | 2,949 | 69,413 | 68,371 |
| Realized investment gains used to support the endowment payout formula | <u>16,298</u> | <u>743</u> | <u>17,041</u> | <u>7,696</u> |
| Total | <u>\$ 82,762</u> | <u>3,692</u> | <u>86,454</u> | <u>76,067</u> |

Unrestricted operating endowment payout revenue for fiscal years 1999 and 1998 consists of the following:

| | <u>1999</u> | | | |
|---|-------------------|------------------|---------------|---------------|
| | <u>University</u> | <u>Hospitals</u> | <u>Total</u> | <u>1998</u> |
| Unrestricted payout | \$ 21,456 | — | 21,456 | 18,455 |
| Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue | <u>60,017</u> | <u>3,692</u> | <u>63,709</u> | <u>56,434</u> |
| Total | <u>\$ 81,473</u> | <u>3,692</u> | <u>85,165</u> | <u>74,889</u> |

Patient Care

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, costs (as defined) of rendering service to program beneficiaries, or contracted prices.

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Notes to Consolidated Financial Statements

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(in thousands of dollars)

Operations

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing unrestricted net assets except those items of a capital nature, that is, associated with long-term investment or the acquisition of physical plant.

As discussed in note 2, the Hospitals provides certain operating support to the University's Biological Sciences Division. Such support is included in other operating income by the University to the extent expended for non-capital purposes during the period, and amounted to \$21,038 in fiscal 1999 and \$20,954 in fiscal 1998.

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 and annuity and life income assets or funds on deposit with bond trustees are classified as investments.

Inventories

Inventories are comprised principally of goods and supplies held by the University Press and Hospitals and are valued at the lower of cost or net realizable value.

Investments

Investments are recorded in the consolidated financial statements at fair value. The value of investments in index funds and publicly-traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. The fair value of significant direct real estate investments is determined from periodic valuations prepared by independent appraisers.

Fair values for certain private equity and natural resource investments held through limited partnerships or commingled funds are estimated by the respective investment managers if market values are not readily ascertainable. These valuations necessarily involve estimates, assumptions, and methods which are reviewed by the University's Investment Office.

Physical Properties

Physical properties are generally stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

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

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(in thousands of dollars)

changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

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.

Reclassifications

Certain 1998 amounts have been reclassified to conform to the 1999 presentation.

(2) The University of Chicago Hospitals

Organization

The University of Chicago Hospitals was incorporated and assumed the operations of the University hospitals and clinics on October 1, 1986. The University of Chicago Hospitals also includes Louis A. Weiss Memorial Hospital, a community hospital in Chicago, Illinois; and QV, Inc., an affiliated not-for-profit health care corporation consisting of several physician practices, home health-care services, and a health care management service organization. The University elects the Hospitals' Board of Trustees. Accordingly, the Hospitals' financial information is included in the consolidated financial statements.

Agreements with the University

The relationship between the University and the Hospitals is defined in the Affiliation Agreement and the Operating Agreement, both dated October 1, 1986. The Affiliation Agreement specifies University and Hospitals 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 Hospitals of the University's hospital and clinic facilities. On June 30, 1987, the University and the Hospitals entered into a lease agreement. Under the agreement, the Hospitals acquired a 40-year leasehold interest in the University's health care facilities.

Basis of Presentation

The Hospitals maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the American Institute of Certified Public Accountants Audit and Accounting Guide *Health Care Organizations*. For purposes of presentation of the Hospitals' financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for

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Notes to Consolidated Financial Statements

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(in thousands of dollars)

uncollectible Hospitals' patient accounts receivable of \$79,837 in fiscal year 1999 and \$56,422 in fiscal year 1998 has been reclassified as a reduction of patient care revenue; (2) endowment gains of \$6,517 in fiscal year 1999 and \$12,914 in fiscal year 1998 have been reclassified as a nonoperating change in unrestricted net assets; and (3) the loss on debt refinancing of \$14,692 in fiscal year 1999 has been reclassified as an operating expense.

On April 1, 1999, QV, Inc. sold its interest in one of its physician practices at a loss. The loss on the sale of this practice (\$27,014) and the fiscal 1999 and 1998 operating losses associated with the sold practice (\$19,307 and \$22,489, respectively) are shown as an operating change in unrestricted net assets in the consolidated statements of activities.

The Hospitals have made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. Under the Hospitals' accounting, these commitments have been recognized as a reduction in unrestricted net assets in the period in which the commitment is made. For purposes of presentation of the Hospitals' financial position and changes in net assets in the consolidated financial statements, these commitments are recognized as a reduction in unrestricted net assets when qualifying expenditures are made, at which time the program support is transferred to the University. At June 30, 1999 and 1998, the Hospitals recognized commitments exceeded the amounts transferred to the University by \$19,370 and \$28,822, respectively. These unpaid commitments are not reflected in the accompanying consolidated balance sheets.

A reconciliation between the Hospitals' changes in unrestricted net assets reported in the stand-alone financial statements of the Hospitals and those included in the University's consolidated statements of activities for the fiscal years ended June 30, 1999 and 1998 is presented below:

| | 1999 | 1998 |
|--|-------------|-------------|
| Decrease in unrestricted net assets – as reported in the Hospitals' combined statements of changes in net assets | \$ (40,197) | (1,581) |
| Hospitals' commitment to the University's Biological Sciences Division for program enhancement and expansion: | | |
| Recognized | 15,000 | 15,000 |
| Transferred | (24,452) | (18,741) |
| Other reconciling items | — | (487) |
| Decrease in unrestricted net assets – as reported in the University's consolidated statements of activities | \$ (49,649) | (5,809) |

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(in thousands of dollars)

(3) Investments

Fair values of investments at June 30, 1999 and 1998 are shown below:

| | 1999 | | | | |
|---|---|-------------------|----------------|------------------|------------------|
| | University and Hospitals Endowment | All others | | Total | 1998 |
| | University | Hospitals | | | |
| Cash equivalents | \$ 10,298 | 10,916 | 11,352 | 32,566 | 59,109 |
| Stocks | 2,044,461 | 94,065 | 154,340 | 2,292,866 | 1,978,621 |
| Bonds | 420,680 | 125,528 | 42,755 | 588,963 | 511,909 |
| Real estate | 264,068 | 21,215 | 9,025 | 294,308 | 276,675 |
| Assets held by trustee (primarily cash equivalents and bonds) | 15,803 | 199,205 | 19,440 | 234,448 | 173,569 |
| Other | — | 2,492 | — | 2,492 | 1,876 |
| Total | \$ 2,755,310 | 453,421 | 236,912 | 3,445,643 | 3,001,759 |

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(in thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 1999 and 1998:

| | <u>University</u> | <u>1999 Hospitals</u> | <u>Consolidated</u> | <u>1998 Consolidated</u> |
|---|---------------------|---------------------------|---------------------|------------------------------|
| Investment return: | | | | |
| Endowment yield (interest, dividends, and rents) | \$ 66,464 | 2,949 | 69,413 | 68,371 |
| Realized gains on investments | 166,021 | 7,260 | 173,281 | 299,647 |
| Unrealized gains (losses) on investments | <u>104,728</u> | <u>4,571</u> | <u>109,299</u> | <u>(16,472)</u> |
| Total investment return | 337,213 | 14,780 | 351,993 | 351,546 |
| Endowment payout | <u>(82,762)</u> | <u>(3,692)</u> | <u>(86,454)</u> | <u>(76,067)</u> |
| Net investment return reinvested | <u>254,451</u> | <u>11,088</u> | <u>265,539</u> | <u>275,479</u> |
| Other changes in endowment investments: | | | | |
| Gifts received in cash | 33,979 | 55 | 34,034 | 36,938 |
| Transfers to create funds functioning as endowment | 89,343 | — | 89,343 | 11,764 |
| Other changes | <u>(231)</u> | <u>855</u> | <u>624</u> | <u>6,545</u> |
| Total other changes in endowment investments | <u>123,091</u> | <u>910</u> | <u>124,001</u> | <u>55,247</u> |
| Net change in endowment investments | 377,542 | 11,998 | 389,540 | 330,726 |
| Endowment investments at: | | | | |
| Beginning of year | <u>2,262,997</u> | <u>102,773</u> | <u>2,365,770</u> | <u>2,035,044</u> |
| End of year | <u>\$ 2,640,539</u> | <u>114,771</u> | <u>2,755,310</u> | <u>2,365,770</u> |

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Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

(4) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 1999 and 1998 are shown below:

| | 1999 | | 1998 | |
|--|-------------------|------------------|-------------------|------------------|
| | <u>University</u> | <u>Hospitals</u> | <u>University</u> | <u>Hospitals</u> |
| Patients | \$ 73,257 | 203,530 | 68,358 | 134,568 |
| Students: | | | | |
| Loans | 112,676 | — | 92,077 | — |
| Tuition and fees | 3,177 | — | 2,493 | — |
| U.S. Government | 15,727 | — | 11,122 | — |
| All other | 49,520 | — | 40,322 | — |
| | <u>254,357</u> | <u>203,530</u> | <u>214,372</u> | <u>134,568</u> |
| Subtotal | | | | |
| Less allowance for doubtful accounts (primarily patient receivables) | <u>(60,573)</u> | <u>(73,712)</u> | <u>(47,392)</u> | <u>(60,655)</u> |
| Total | <u>\$ 193,784</u> | <u>129,818</u> | <u>166,980</u> | <u>73,913</u> |

(5) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 1999 and 1998 are shown below:

| | 1999 | | 1998 | |
|-------------------------------|-------------------|------------------|-------------------|------------------|
| | <u>University</u> | <u>Hospitals</u> | <u>University</u> | <u>Hospitals</u> |
| Land | \$ 25,586 | 24,206 | 25,585 | 18,770 |
| Buildings | 600,352 | 424,304 | 547,348 | 407,808 |
| Equipment | 211,882 | 237,455 | 197,660 | 224,585 |
| Books | 123,834 | — | 115,061 | — |
| Construction in-progress | 71,299 | 27,817 | 72,201 | 20,053 |
| | <u>1,032,953</u> | <u>713,782</u> | <u>957,855</u> | <u>671,216</u> |
| Subtotal | | | | |
| Less accumulated depreciation | <u>(492,180)</u> | <u>(327,458)</u> | <u>(459,508)</u> | <u>(293,541)</u> |
| Total | <u>\$ 540,773</u> | <u>386,324</u> | <u>498,347</u> | <u>377,675</u> |

Depreciation is calculated on a straight-line basis using the following useful lives: buildings and building improvements, 13 to 63 years; equipment, 3 to 20 years; and books, 10 years.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 1999 and 1998 are shown below:

| | <u>Maturity</u> | <u>Interest rate</u> | <u>1999</u> | <u>1998</u> |
|---|-----------------|----------------------|-------------------|----------------|
| University: | | | | |
| Fixed rate: | | | | |
| Illinois Educational Facilities Authority (IEFA): | | | | |
| Series 1985 | — | — | \$ — | 85,000 |
| Series 1985 – student loan | 2000 | 7.5% | 1,195 | 1,195 |
| Series 1993 | 2014 | 4.7%-5.9% | 5,215 | 5,440 |
| Series 1993B | 2025 | 5.5%-5.7% | 36,975 | 36,975 |
| Series 1993C | 2008 | 4.1%-5.0% | 15,100 | 16,400 |
| Series 1998A | 2039 | 5.0%-5.3% | 125,000 | — |
| Unamortized discount | | | (3,559) | (2,386) |
| U.S. Government housing bonds | 2003 | 3.0%-3.6% | 446 | 579 |
| Mortgage notes | 2003 | 7.6%-8.5% | — | 233 |
| Total fixed rate | | | <u>180,372</u> | <u>143,436</u> |
| Variable rate: | | | | |
| Illinois Health Facilities Authority (IHFA) – Series 1985 | 2016 | 3.2% | 62,300 | 62,300 |
| Illinois Student Assistance Commission IEFA: | 1999 | 4.5% | 70,672 | 50,872 |
| Series 1985 NORC | 2007 | 3.5% | 437 | 497 |
| Pooled financing program | 2011 | 3.4% | 6,875 | 5,250 |
| Series 1998B | 2026 | 4.4% | 90,510 | — |
| Taxable commercial paper | 1999 | 5.0% | 46,000 | 46,000 |
| Total variable rate | | | <u>276,794</u> | <u>164,919</u> |
| Total University | | | <u>457,166</u> | <u>308,355</u> |
| Hospitals: | | | | |
| Fixed rate: | | | | |
| IHFA: | | | | |
| Series 1993A | 2008 | 4.5%-5.5% | 45,650 | 48,470 |
| Series 1993B | 2014 | 5.8% | 41,000 | 41,000 |
| Series 1994A | — | — | — | 51,925 |
| Series 1994B | — | — | — | 55,800 |
| Unamortized discount | | | (324) | (2,054) |
| Other | 2001 | 6.5%-8.5% | 11,821 | 12,238 |
| Total fixed rate | | | <u>98,147</u> | <u>207,379</u> |
| Variable rate: | | | | |
| IHFA: | | | | |
| Series 1985D | — | — | — | 295 |
| Series 1994C | 2026 | 2.8%-4.2% | 55,400 | 55,400 |
| Series 1998 | 2026 | 4.5% | 119,500 | — |
| IEFA pooled financing program | 2028 | 3.2% | 27,866 | — |
| Bank notes | 1999 | 6.0%-7.0% | 30,000 | 10,500 |
| Total variable rate | | | <u>232,766</u> | <u>66,195</u> |
| Total Hospitals | | | <u>330,913</u> | <u>273,574</u> |
| Total notes and bonds payable | | | <u>\$ 788,079</u> | <u>581,929</u> |

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

During fiscal 1999, the University and Hospitals issued \$217,135 and \$147,366, respectively, in bonds. Approximately \$90,510 of proceeds from the University bonds and approximately \$119,500 of proceeds from the Hospitals bonds were used to purchase U.S. Government securities, which were deposited in irrevocable trusts solely for the purpose of making principal and interest payments on the University IEFA Series 1985 and the Hospitals IHFA Series 1994A and 1994B bonds. Accordingly, the bonds have been legally extinguished, and neither the indebtedness nor the assets of the irrevocable trusts are included in the consolidated balance sheets.

Principal payments required for outstanding fixed rate University notes and bonds in each of the five years ending June 30, 2000 through 2004 are approximately \$3,016, \$1,953, \$1,956, \$1,960, and \$2,051, respectively.

Principal payments required in each of the five years ending June 30, 2000 through 2004 for the Hospitals' notes and bonds are approximately \$13,674, \$6,151, \$6,021, \$4,935, and \$5,475, respectively.

(7) Collateral for Notes and Bonds Payable

The University notes and bonds payable are secured by certain physical properties with a carrying value of approximately \$10,099 as of June 30, 1999. In addition, at June 30, 1999, the University had approximately \$9,289 of assets held by trustees for debt service.

The Hospitals Series 1993, 1994, and 1998 bonds are guaranteed by a municipal bond insurance policy.

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

(8) Securities Loaned

The University has an agreement with its investment custodian to lend University securities to brokers in exchange for a fee. The security lending agreement specifies that the custodian is responsible for the lending of securities and obtaining adequate collateral from the borrower. At June 30, 1999, investment securities with an aggregate market value of \$430,240 were loaned to various brokers and are returnable on demand.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

(9) Pledges

The present value of unconditional pledges receivable, net of an allowance for uncollectible amounts at June 30, 1999 and 1998 is shown below:

| | <u>1999</u> | | <u>1998</u> | |
|--|-------------------|------------------|-------------------|------------------|
| | <u>University</u> | <u>Hospitals</u> | <u>University</u> | <u>Hospitals</u> |
| Unconditional promises (net of discount of \$9,754 in 1999 and \$5,396 in 1998) expected to be collected in: | | | | |
| Less than one year | \$ 20,095 | 923 | 16,731 | 569 |
| One year to five years | 32,800 | 811 | 23,118 | 1,941 |
| More than five years | 485 | — | 249 | — |
| | <u>53,380</u> | <u>1,734</u> | <u>40,098</u> | <u>2,510</u> |
| Less allowance for uncollectible pledges | <u>(3,935)</u> | <u>—</u> | <u>(3,891)</u> | <u>—</u> |
| Total | <u>\$ 49,445</u> | <u>1,734</u> | <u>36,207</u> | <u>2,510</u> |

(10) Self-insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the years ended June 30, 1999 and 1998, was \$4,000 per claim and \$19,000 in annual aggregate. The Hospitals are included under this insurance program and are charged for their portion of self-insurance costs. The University and Hospitals 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 \$24,000 higher than the amount recorded in the consolidated financial statements at June 30, 1999. The interest rate assumed in determining the present value was 6%.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

In addition, the Hospitals maintains a separate professional self-insurance liability program for certain of its employees at Weiss Memorial Hospital. This program is supplemented with commercial excess insurance above a self-insurance retention of \$2,000 per claim and \$4,000 in annual aggregate. The liability for this self-insurance program is actuarially determined on a present value basis. If the present value method was not used, the liability for these claims would be approximately \$2,703 higher.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 1999 and 1998 is presented below:

| | 1999 | | 1998 | |
|-----------------------|-------------------|------------------|-------------------|------------------|
| | <u>University</u> | <u>Hospitals</u> | <u>University</u> | <u>Hospitals</u> |
| Medical malpractice | \$ 91,475 | 11,329 | 90,676 | 9,254 |
| Workers' compensation | 3,056 | 6,155 | 3,200 | 5,687 |
| Other | <u>3,664</u> | <u>—</u> | <u>3,144</u> | <u>—</u> |
| Total | <u>\$ 98,195</u> | <u>17,484</u> | <u>97,020</u> | <u>14,941</u> |

(11) Pension Plans and Other Postretirement Benefits

Substantially all personnel of the University participate in either the defined contribution pension plan for academic staff or the defined benefit and contribution pension plans for nonacademic personnel. The majority of Hospitals employees participate in the University's pension plan for nonacademic employees.

In addition to providing pension benefits, the University provides certain health care benefits for retired employees. All Medicare eligible tenured faculty who elect to participate in the University Faculty Retirement Incentive Program receive supplemental health insurance at no cost for themselves and their spouses. All other academic and nonacademic employees are entitled to supplemental health insurance coverage subject to deductibles, copayment provisions, and other limitations.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

The postretirement benefit obligation, fair value of plan assets, and funded status along with the prepaid (accrued) benefit cost for these plans are shown below:

| | Defined Benefit Pension Plan | | Postretirement Health Care Benefits | |
|--|---|----------------|--|-----------------|
| | <u>1999</u> | <u>1998</u> | <u>1999</u> | <u>1998</u> |
| Benefit obligation at March 31 | \$ 196,221 | 187,207 | 31,742 | 30,055 |
| Fair value of plan assets at March 31 | <u>368,871</u> | <u>355,977</u> | <u>13,464</u> | <u>10,721</u> |
| Excess (deficiency) of plan assets over benefit obligation | <u>\$ 172,650</u> | <u>168,770</u> | <u>(18,278)</u> | <u>(19,334)</u> |
| Prepaid (accrued) benefit cost recognized in the consolidated balance sheets at June 30 | <u>\$ 60,338</u> | <u>44,374</u> | <u>(12,242)</u> | <u>(9,511)</u> |

The weighted-average assumptions used in the accounting for the pension and postretirement plans are shown below as of March 31:

| | Defined Benefit Pension Plan | | Postretirement Health Care Benefits | |
|--------------------------------|---|-------------|--|-------------|
| | <u>1999</u> | <u>1998</u> | <u>1999</u> | <u>1998</u> |
| Discount rate | 7.3% | 7.3 | 7.3 | 7.3 |
| Expected return on plan assets | 8.5 | 8.5 | 6.0 | 6.0 |
| Rate of compensation increase | 3.6 | 3.6 | — | — |
| Health care cost trend rates: | | | | |
| Next two fiscal years | — | — | 7.5 | 7.5 |
| Next seven fiscal years | — | — | 4.5 | 4.5 |
| Thereafter | <u>—</u> | <u>—</u> | <u>3.5</u> | <u>3.5</u> |

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

The net periodic benefit cost (income), employer contribution, participant contributions, and benefits paid for these plans are shown below for the fiscal years ended June 30:

| | Defined Benefit Pension Plan | | Postretirement Health Care Benefits | |
|--|---|-------------|--|-------------|
| | 1999 | 1998 | 1999 | 1998 |
| Benefit cost (income) included in the consolidated statements of activities | \$ (15,964) | (7,729) | 3,084 | 3,245 |
| Employer contributions | — | — | 1,245 | 2,098 |
| Plan participants' contributions | — | — | 1,871 | 1,302 |
| Benefits paid | 20,971 | 14,109 | 3,116 | 3,400 |

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$18,627 in fiscal 1999 and \$17,336 in fiscal 1998.

In addition, Weiss Memorial Hospital maintains a separate defined benefit pension plan for certain of its employees. Assets of this plan approximated \$35,100 and \$32,300 at June 30, 1999 and 1998, and compared with the related projected benefit obligations of \$35,500 and \$34,300 for those years, respectively.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 1999 and 1998 are shown below:

| | 1999 | 1998 |
|---|--------------|-------------|
| University: | | |
| Academic and research: | | |
| Instruction | \$ 399,761 | 377,718 |
| Research | 119,543 | 109,607 |
| Auxiliary enterprises | 94,244 | 94,843 |
| Library | 13,945 | 13,235 |
| Student services | 22,918 | 23,099 |
| Operation and maintenance of physical plant | 64,989 | 57,923 |
| Depreciation | 40,373 | 37,191 |
| Interest on notes and bonds | 17,583 | 14,701 |
| Total academic and research | 773,356 | 728,317 |
| Administration: | | |
| Institutional support | 47,961 | 42,348 |
| Operation and maintenance of physical plant | 2,264 | 1,956 |
| Depreciation | 2,774 | 2,578 |
| Interest on notes and bonds | 474 | 179 |
| Total administration | 53,473 | 47,061 |
| Total University | 826,829 | 775,378 |
| Hospitals – hospital services | 642,394 | 647,946 |
| Total | \$ 1,469,223 | 1,423,324 |

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.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 1999 and 1998

(in thousands of dollars)

(13) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC) and The Baptist Theological Union (BTU). Consolidation of these financially interrelated not-for-profit organizations is not required because the University does not have both control and an economic interest. A summary description of these organizations follows:

- NORC is 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, 1998 and 1997 was \$53,818 and \$58,444, respectively. Unrestricted net assets at December 31, 1998 and 1997 were \$6,974 and \$6,458, respectively.
- BTU is a not-for-profit organization that distributes its earnings on endowment assets to the University's Divinity School. No University faculty or officers are members of the BTU Board of Trustees. During the fiscal years ended June 30, 1999 and 1998, BTU distributed \$3,661 and \$3,428 to the University's Divinity School, respectively. The market value of the BTU endowment at June 30, 1999 and 1998 was \$50,671 and \$42,822, respectively.

In addition, the University operates the Argonne National Laboratory under a contract with the U.S. Department of Energy, which provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The expenditures under this contract and the related reimbursements of \$491,705 in fiscal year 1999 and \$490,030 in fiscal year 1998 are not included in the consolidated statements of activities. Also, net assets relating to Argonne National Laboratory are owned by the United States government and, therefore, are not included in the consolidated balance sheets.

(14) Contingencies

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

THE UNIVERSITY OF CHICAGO

Statements of Activities Information – University

Years ended June 30, 1999 and 1998

(in thousands of dollars)

| | <u>1999</u> | <u>1998</u> |
|---|------------------|-----------------|
| Changes in unrestricted net assets: | | |
| Operating: | | |
| Revenue: | | |
| Tuition and fees – gross | \$ 271,177 | 253,005 |
| Less: | | |
| Undergraduate student aid | (34,196) | (32,554) |
| Graduate student aid | <u>(74,946)</u> | <u>(70,484)</u> |
| Tuition and fees – net | 162,035 | 149,967 |
| Government grants and contracts | 182,960 | 167,430 |
| Private gifts, grants, and contracts | 77,730 | 79,740 |
| Endowment payout | 81,473 | 71,583 |
| Earnings on other investments | 16,074 | 12,808 |
| Patient care | 127,632 | 121,633 |
| Auxiliaries | 117,816 | 115,827 |
| Other income | <u>81,847</u> | <u>70,030</u> |
| Total operating revenue | <u>847,567</u> | <u>789,018</u> |
| Expenses: | | |
| Compensation: | | |
| Academic salaries | 247,516 | 232,808 |
| Staff salaries | 196,148 | 181,121 |
| Benefits | <u>87,514</u> | <u>80,423</u> |
| Total compensation | <u>531,178</u> | <u>494,352</u> |
| Other operating expenses: | | |
| Utilities, alterations, and repairs | 22,593 | 22,713 |
| Depreciation | 43,147 | 39,769 |
| Interest | 18,057 | 14,879 |
| Supplies and services | 199,542 | 196,099 |
| Loss on debt refinancing | 6,043 | — |
| Insurance | <u>6,269</u> | <u>7,566</u> |
| Total other operating expenses | <u>295,651</u> | <u>281,026</u> |
| Total operating expenses | <u>826,829</u> | <u>775,378</u> |
| Excess of operating revenue over expenses | <u>\$ 20,738</u> | <u>13,640</u> |

THE UNIVERSITY OF CHICAGO

Statements of Activities Information – University

Years ended June 30, 1999 and 1998

(in thousands of dollars)

| | <u>1999</u> | <u>1998</u> |
|---|---------------------|------------------|
| Changes in unrestricted net assets: | | |
| Nonoperating: | | |
| Gifts and grants for buildings and equipment | \$ 4,189 | 6,653 |
| Endowment payout | 87 | 96 |
| Investment gains | 248,532 | 262,784 |
| Other | <u>13,460</u> | <u>14,104</u> |
| Change in unrestricted net assets from nonoperating activities | <u>266,268</u> | <u>283,637</u> |
| Increase in unrestricted net assets | <u>287,006</u> | <u>297,277</u> |
| Changes in temporarily restricted net assets: | | |
| Private gifts | 24,473 | 13,173 |
| Endowment payout | 55 | 57 |
| Investment gains | 534 | 2,122 |
| Other | <u>(15,951)</u> | <u>(14,737)</u> |
| Increase in temporarily restricted net assets | <u>9,111</u> | <u>615</u> |
| Changes in permanently restricted net assets: | | |
| Private gifts | 39,943 | 33,191 |
| Endowment payout | 1,147 | 1,025 |
| Investment gains | 10,010 | 13,870 |
| Other | <u>(1,277)</u> | <u>(528)</u> |
| Increase in permanently restricted net assets | <u>49,823</u> | <u>47,558</u> |
| Increase in net assets | 345,940 | 345,450 |
| Net assets at beginning of year | <u>2,852,458</u> | <u>2,507,008</u> |
| Net assets at end of year | <u>\$ 3,198,398</u> | <u>2,852,458</u> |

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Balance Sheet Information – University

June 30, 1999 and 1998

(in thousands of dollars)

| Assets | 1999 | 1998 |
|---|---------------------|------------------|
| Cash and cash equivalents | \$ 49,428 | 93,939 |
| Notes and accounts receivable | 193,784 | 166,980 |
| Inventories | 8,838 | 9,157 |
| Prepaid expenses and other assets | 90,587 | 68,627 |
| Pledges receivable | 49,445 | 36,207 |
| Investments, at market | 3,093,960 | 2,629,644 |
| Land, buildings, equipment, and books | 540,773 | 498,347 |
| Total assets | <u>\$ 4,026,815</u> | <u>3,502,901</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 124,442 | 101,112 |
| Deferred revenue | 55,397 | 59,445 |
| Assets held in custody for others | 56,638 | 48,462 |
| Self-insurance liability | 98,195 | 97,020 |
| Notes and bonds payable | 457,166 | 308,355 |
| Refundable U.S. government student loan funds | 36,579 | 36,049 |
| Total liabilities | <u>828,417</u> | <u>650,443</u> |
| Net assets: | | |
| Unrestricted | 2,581,316 | 2,294,310 |
| Temporarily restricted | 76,027 | 66,916 |
| Permanently restricted | 541,055 | 491,232 |
| Total net assets | <u>3,198,398</u> | <u>2,852,458</u> |
| Total liabilities and net assets | <u>\$ 4,026,815</u> | <u>3,502,901</u> |

See accompanying independent auditors' report.



303 East Wacker Drive
Chicago, IL 60601

Independent Auditors' Report

The Board of Trustees
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago as of June 30, 1999 and 1998, 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 Hospitals, which statements reflect total assets constituting 19 percent and 21 percent and total change in net assets constituting 13 percent and 1 percent of the related consolidated totals in 1999 and 1998, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of Chicago Hospitals, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports 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, 1999 and 1998, and the change in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

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 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.





In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 1999, on our consideration of the University's internal control over financial reporting and our tests of its compliance with laws and regulations.

KPMG LLP

October 15, 1999