

THE UNIVERSITY OF CHICAGO

Consolidated Financial Statements and
Supplemental University Information

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2001 and 2000

(in thousands of dollars)

Assets	2001			2000
	University	Hospitals	Consolidated	Consolidated
Cash and cash equivalents	\$ 8,395	30,988	39,383	31,423
Notes and accounts receivable	213,774	104,704	318,478	333,208
Collateral held for securities loaned	566,591	—	566,591	529,830
Inventories	9,142	7,312	16,454	14,710
Prepaid expenses and other assets	122,621	25,762	148,383	150,158
Pledges receivable	112,833	22,254	135,087	111,565
Investments	3,778,903	348,685	4,127,588	4,584,950
Land, buildings, equipment, and books	702,076	393,982	1,096,058	999,947
	\$ 5,514,335	933,687	6,448,022	6,755,791
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 126,679	238,730	365,409	363,967
Deferred revenue	59,085	—	59,085	57,928
Payable under securities loan agreements	566,591	—	566,591	529,830
Assets held in custody for others	26,171	—	26,171	59,471
Self-insurance liability	87,238	16,156	103,394	118,137
Notes and bonds payable	553,016	300,396	853,412	820,191
Refundable U.S. Government student loan funds	38,010	—	38,010	37,266
	1,456,790	555,282	2,012,072	1,986,790
Net assets:				
Unrestricted	3,136,731	346,893	3,483,624	3,898,229
Temporarily restricted	259,975	26,637	286,612	258,694
Permanently restricted	660,839	4,875	665,714	612,078
	4,057,545	378,405	4,435,950	4,769,001
	\$ 5,514,335	933,687	6,448,022	6,755,791

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2001 and 2000

(in thousands of dollars)

	2001			2000
	<u>University</u>	<u>Hospitals</u>	<u>Consolidated</u>	<u>Consolidated</u>
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	\$ 316,692	—	316,692	285,681
Less:				
Undergraduate student aid	(35,234)	—	(35,234)	(34,911)
Graduate student aid	(95,741)	—	(95,741)	(79,165)
Tuition and fees – net	185,717	—	185,717	171,605
Government grants and contracts	203,218	—	203,218	185,703
Private gifts, grants, and contracts	83,156	417	83,573	93,416
Endowment payout	116,767	4,883	121,650	103,085
Earnings on other investments	15,615	9,313	24,928	26,402
Patient care	133,027	609,627	742,654	720,951
Auxiliaries	133,920	—	133,920	127,882
Other income	96,647	24,410	121,057	120,601
Total operating revenue	968,067	648,650	1,616,717	1,549,645
Expenses:				
Compensation:				
Academic salaries	270,428	—	270,428	257,341
Staff salaries	228,386	283,315	511,701	491,226
Benefits	102,012	58,014	160,026	148,816
Total compensation	600,826	341,329	942,155	897,383
Other operating expenses:				
Utilities, alterations, and repairs	27,987	18,650	46,637	40,227
Depreciation	50,590	44,680	95,270	88,548
Interest	22,959	15,763	38,722	35,698
Supplies and services	243,776	222,178	465,954	425,760
Insurance	7,792	9,007	16,799	14,743
Total other operating expenses	353,104	310,278	663,382	604,976
Total operating expenses	953,930	651,607	1,605,537	1,502,359
Excess (deficiency) of operating revenue over expense:	14,137	(2,957)	11,180	47,286
Gain from operation and sale of discontinued physician practice	—	—	—	412
Excess (deficiency) of operating revenue over expenses and loss from discontinued physician practice	14,137	(2,957)	11,180	47,698

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2001 and 2000

(in thousands of dollars)

	2001			2000
	<u>University</u>	<u>Hospitals</u>	<u>Consolidated</u>	<u>Consolidated</u>
Changes in unrestricted net assets:				
Nonoperating:				
Endowment payout	\$ 66	—	66	59
Investment gains (losses)	(417,973)	(43,429)	(461,402)	1,006,610
Change in method of accounting for Baptist Theological Union net assets	50,766	—	50,766	—
Change in method of accounting for gifts and grants restricted for buildings and equipment	—	—	—	(76,301)
Other, net	<u>(302)</u>	<u>(14,913)</u>	<u>(15,215)</u>	<u>(26,764)</u>
Change in unrestricted net assets from nonoperating activities	<u>(367,443)</u>	<u>(58,342)</u>	<u>(425,785)</u>	<u>903,604</u>
Increase (decrease) in unrestricted net assets	<u>(353,306)</u>	<u>(61,299)</u>	<u>(414,605)</u>	<u>951,302</u>
Changes in temporarily restricted net assets				
Private gifts	39,625	22,347	61,972	119,393
Endowment payout	176	—	176	58
Investment gains (losses)	(1,912)	—	(1,912)	1,684
Change in method of accounting for gifts and grants restricted for buildings and equipment	—	—	—	76,301
Other, net	<u>(29,750)</u>	<u>(2,568)</u>	<u>(32,318)</u>	<u>(19,893)</u>
Increase in temporarily restricted net assets	<u>8,139</u>	<u>19,779</u>	<u>27,918</u>	<u>177,543</u>
Changes in permanently restricted net assets				
Private gifts	42,845	54	42,899	36,571
Endowment payout	1,075	—	1,075	1,412
Investment gains (losses)	(3,100)	—	(3,100)	12,600
Change in method of accounting for Baptist Theological Union net assets	1,509	—	1,509	—
Other, net	<u>11,253</u>	<u>—</u>	<u>11,253</u>	<u>15,866</u>
Increase in permanently restricted net assets	<u>53,582</u>	<u>54</u>	<u>53,636</u>	<u>66,449</u>
Increase (decrease) in net assets:	(291,585)	(41,466)	(333,051)	1,195,294
Net assets at beginning of year	<u>4,349,130</u>	<u>419,871</u>	<u>4,769,001</u>	<u>3,573,707</u>
Net assets at end of year	<u>\$ 4,057,545</u>	<u>378,405</u>	<u>4,435,950</u>	<u>4,769,001</u>

See accompanying notes to consolidated financial statements

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2001 and 2000

(in thousands of dollars)

	2001			2000
	<u>University</u>	<u>Hospitals</u>	<u>Consolidated</u>	<u>Consolidated</u>
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ (291,585)	(41,466)	(333,051)	1,195,294
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation	50,590	44,680	95,270	88,548
Gain from sale of discontinued physician practice	—	—	—	(412)
Net (gain) loss on investments	422,985	43,429	466,414	(1,020,894)
Private gifts and grants restricted for long-term investment	(82,470)	(22,401)	(104,871)	(156,132)
Other nonoperating changes	17,482	17,486	34,968	29,430
Pension income	(14,262)	—	(14,262)	(15,570)
Change in method of accounting for Baptist Theological Union net assets	(52,275)	—	(52,275)	—
Changes in assets and liabilities:				
Notes and accounts receivable	786	22,008	22,794	(6,266)
Prepaid expenses and other assets	386	13,907	14,293	7,589
Accounts payable and other liabilities	2,906	(179)	2,727	33,492
Self-insurance liability	(11,878)	(2,865)	(14,743)	2,458
Total adjustments	<u>334,250</u>	<u>116,065</u>	<u>450,315</u>	<u>(1,037,757)</u>
Net cash provided by operating activities	<u>42,665</u>	<u>74,599</u>	<u>117,264</u>	<u>157,537</u>
Cash flows from investing activities:				
Purchase of investments	(571,966)	(241,172)	(813,138)	(6,202,951)
Proceeds from sale of investments	552,356	251,730	804,086	6,074,237
Acquisition of land, buildings, equipment, and books	(150,287)	(54,633)	(204,920)	(161,811)
Disposal of land, buildings, equipment, and books	8,202	5,337	13,539	413
Increase in investment assets held for others	19,591	—	19,591	—
Loans disbursed	(53,860)	—	(53,860)	(49,482)
Principal collected on loans	45,796	—	45,796	46,142
Net cash used in investing activities	<u>(150,168)</u>	<u>(38,738)</u>	<u>(188,906)</u>	<u>(293,452)</u>
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	83,952	3,457	87,409	148,866
Principal payments on notes and bonds payable	(43,725)	(10,463)	(54,188)	(116,754)
Proceeds from private gifts and grants restricted for long-term investment	78,549	2,800	81,349	95,746
Other nonoperating changes	(17,482)	(17,486)	(34,968)	(29,430)
Net cash provided by (used in) financing activities	<u>101,294</u>	<u>(21,692)</u>	<u>79,602</u>	<u>98,428</u>
Increase (decrease) in cash and cash equivalents	(6,209)	14,169	7,960	(37,487)
Cash and cash equivalents at:				
Beginning of year	<u>14,604</u>	<u>16,819</u>	<u>31,423</u>	<u>68,910</u>
End of year	\$ <u>8,395</u>	<u>30,988</u>	<u>39,383</u>	<u>31,423</u>
Supplemental disclosure of cash flow information – cash paid for interest	\$ <u>24,729</u>	<u>15,911</u>	<u>40,640</u>	<u>37,503</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(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 that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University – instruction, conduct of sponsored research, and provision of health care services. In addition to these exchange transactions, changes in this category of net assets include realized and unrealized gains and losses on endowment funds 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.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

- Temporarily Restricted – net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which restrictions have not been met, gifts and grants for buildings and equipment, 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, including amortization of restricted gifts and grants for buildings and equipment, are reported as reclassifications between the net asset classes and included in other.
- 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.

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.

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 \$21,969 in fiscal 2001 and \$20,030 in fiscal 2000.

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 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, 2001 and 2000 are \$33,002 and \$32,879, respectively, of private grant and contract receipts which have not been expended.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

Private gifts, grants, and contracts operating revenue for fiscal years 2001 and 2000 consists of the following:

	<u>University</u>	<u>2001 Hospitals</u>	<u>Total</u>	<u>2000</u>
Private gifts:				
Unrestricted as to use	\$ 13,660	417	14,077	19,747
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	24,717	—	24,717	23,753
Private grants and contracts	<u>44,779</u>	<u>—</u>	<u>44,779</u>	<u>49,916</u>
Total	<u>\$ 83,156</u>	<u>417</u>	<u>83,573</u>	<u>93,416</u>

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 capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment.

Endowment payout for fiscal years 2001 and 2000 consists of the following:

	<u>University</u>	<u>2001 Hospitals</u>	<u>Total</u>	<u>2000</u>
Interest, dividends, and rents	\$ 73,334	2,987	76,321	67,330
Realized investment gains used to support the endowment payout formula	<u>44,750</u>	<u>1,896</u>	<u>46,646</u>	<u>37,284</u>
Total	<u>\$ 118,084</u>	<u>4,883</u>	<u>122,967</u>	<u>104,614</u>

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

Unrestricted operating endowment payout revenue for fiscal years 2001 and 2000 consists of the following:

	<u>University</u>	<u>2001 Hospitals</u>	<u>Total</u>	<u>2000</u>
Unrestricted payout	\$ 34,631	—	34,631	28,013
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	<u>82,136</u>	<u>4,883</u>	<u>87,019</u>	<u>75,072</u>
Total	<u>\$ 116,767</u>	<u>4,883</u>	<u>121,650</u>	<u>103,085</u>

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.

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.

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.

Fair values for certain private equity, real estate, 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.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

Land, Building, 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.

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.

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.

Accounting Changes

In fiscal 2001, the University adopted Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others* and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

SFAS No. 136 establishes standards for transactions in which a donor makes a contribution to a not-for-profit organization that agrees to use the assets or the return on those assets for the benefit of another organization specified by the donor. In this regard, the cumulative effect of this change in method of accounting was to transfer to the University \$52,275 of net assets held by the Baptist Theological Union, a not-for-profit organization that distributes its earnings on endowment assets to the University's Divinity School, effective July 1, 2000.

SFAS No. 140 requires that certain types of securities lending transactions be accounted for as secured borrowings. In this regard cash held by the University as collateral for lent securities is considered both an asset and liability of the University.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

Beginning in fiscal 2000, gifts and grants, including unconditional pledges, restricted for buildings and equipment are recognized as increases in temporarily restricted net assets and amortized into operating revenue over the useful lives of the assets acquired or constructed. Prior to fiscal 2000, restricted gifts and grants for buildings and equipment were recognized as a nonoperating increase in unrestricted net assets. The change in method of recognition was adopted to more closely match restricted resources used to acquire or construct buildings and equipment with the depreciation of those assets. The cumulative effect of this change in reporting amounts to \$76,301 and is shown as a reclassification between unrestricted and temporarily restricted net assets in fiscal 2000.

Reclassifications

Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

(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 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 uncollectible Hospitals' patient accounts receivable of \$73,124 in fiscal year 2001 and \$65,612 in fiscal year 2000 has been reclassified as a reduction of patient care revenue and (2) realized investment gains of \$17,593 in fiscal year 2001 and \$41,645 in fiscal year 2000 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

The Hospitals have made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. During fiscal 2001 and 2000, the Hospitals transferred to the University \$15,000 and \$34,370, respectively, in support of these programs.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

(3) Investments

Fair values of investments at June 30, 2001 and 2000 are shown below:

	2001				2000
	University and Hospitals Endowment	All others		Total	
		University	Hospitals		
Cash equivalents	\$ 47,603	2,195	—	49,798	84,245
Stocks	1,850,702	75,728	98,688	2,025,118	2,193,671
Private equity	704,243	4,011	15,123	723,377	984,774
Bonds	695,277	172,811	37,032	905,120	861,182
Real estate	178,421	6,940	21,327	206,688	186,483
Assets held by trustee (primarily cash equivalents and bonds)	15,483	163,852	13,282	192,617	253,339
Other	—	3,154	21,716	24,870	21,256
Total	<u>\$ 3,491,729</u>	<u>428,691</u>	<u>207,168</u>	<u>4,127,588</u>	<u>4,584,950</u>

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2001 and 2000:

	<u>University</u>	<u>2001 Hospitals</u>	<u>Consolidated</u>	<u>2000 Consolidated</u>
Investment return:				
Endowment yield (interest, dividends, and rents)	\$ 73,334	2,987	76,321	67,330
Realized gains on investments	292,293	12,673	304,966	964,839
Unrealized gains on investments	<u>(679,256)</u>	<u>(29,026)</u>	<u>(708,282)</u>	<u>76,298</u>
Total investment return	(313,629)	(13,366)	(326,995)	1,108,467
Endowment payout	<u>(118,084)</u>	<u>(4,883)</u>	<u>(122,967)</u>	<u>(104,614)</u>
Net investment return (loss)	<u>(431,713)</u>	<u>(18,249)</u>	<u>(449,962)</u>	<u>1,003,853</u>
Other changes in endowment investments:				
Gifts and pledge payments received in cash	45,110	305	45,415	49,683
Transfers to create funds functioning as endowment	14,260	—	14,260	22,178
Baptist Theological Union assets added to endowment	52,275	—	52,275	—
Other changes	<u>1,679</u>	<u>1,173</u>	<u>2,852</u>	<u>(4,135)</u>
Total other changes in endowment investments	<u>113,324</u>	<u>1,478</u>	<u>114,802</u>	<u>67,726</u>
Net change in endowment investments	(318,389)	(16,771)	(335,160)	1,071,579
Endowment investments at:				
Beginning of year	<u>3,668,601</u>	<u>158,288</u>	<u>3,826,889</u>	<u>2,755,310</u>
End of year	<u>\$ 3,350,212</u>	<u>141,517</u>	<u>3,491,729</u>	<u>3,826,889</u>

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

(4) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2001 and 2000 are shown below:

	2001		2000	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Patients	\$ 92,922	176,720	91,871	199,576
Students:				
Loans	123,456	—	116,303	—
Tuition and fees	3,090	—	3,229	—
U.S. Government	19,985	—	19,680	—
All other	48,955	—	48,079	—
	<u>288,408</u>	<u>176,720</u>	<u>279,162</u>	<u>199,576</u>
Subtotal	288,408	176,720	279,162	199,576
Less allowance for doubtful accounts (primarily patient receivables)	<u>(74,634)</u>	<u>(72,016)</u>	<u>(72,666)</u>	<u>(72,864)</u>
Total	<u>\$ 213,774</u>	<u>104,704</u>	<u>206,496</u>	<u>126,712</u>

(5) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2001 and 2000 are shown below:

	2001		2000	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Land	\$ 26,325	27,620	26,325	23,105
Buildings	696,230	450,373	617,314	443,112
Equipment	233,487	271,302	221,797	257,745
Books	143,579	—	132,792	—
Construction in-progress	167,867	27,253	139,418	12,929
	<u>1,267,488</u>	<u>776,548</u>	<u>1,137,646</u>	<u>736,891</u>
Subtotal	1,267,488	776,548	1,137,646	736,891
Less accumulated depreciation	<u>(565,412)</u>	<u>(382,566)</u>	<u>(527,065)</u>	<u>(347,525)</u>
Total	<u>\$ 702,076</u>	<u>393,982</u>	<u>610,581</u>	<u>389,366</u>

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 2001 and 2000 are shown below:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2001</u>	<u>2000</u>
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	5.1%-6.0%	\$ 4,740	4,990
Series 1993B	2025	5.5%-5.7%	36,975	36,975
Series 1993C	2008	4.4%-5.0%	12,200	13,700
Series 1998A	2039	5.0%-5.3%	125,000	125,000
Illinois Health Facilities Authority (IHFA) – Series 1985	2021	5.5%	62,200	—
U.S. Government housing bonds	2003	3.4%-3.6%	169	311
Unamortized discount			<u>(3,325)</u>	<u>(3,442)</u>
Total fixed rate			<u>237,959</u>	<u>177,534</u>
Variable rate:				
IHFA – Series 1985	—	—	—	62,300
Illinois Student Assistance Commission	2002	3.9%	80,207	73,444
IEFA:				
Series 1985 NORC	2007	2.9%	315	376
Pooled financing program	2011	2.7%-3.1%	8,625	8,625
Series 1998B	2026	4.4%	90,510	90,510
Series 2000 commercial paper	2002	2.7%-4.3%	100,000	100,000
Bank line of credit	2002	4.1%	35,400	—
Total variable rate			<u>315,057</u>	<u>335,255</u>
Total University			<u>553,016</u>	<u>512,789</u>
Hospitals:				
Fixed rate:				
IHFA:				
Series 1993A	2009	4.5%-5.5%	38,290	41,945
Series 1993B	2015	5.8%	41,000	41,000
Unamortized discount			<u>(224)</u>	<u>(274)</u>
Total fixed rate			<u>79,066</u>	<u>82,671</u>
Variable rate:				
IHFA:				
Series 1994C	2027	2.7%	55,400	55,400
Series 1998	2027	4.5%	117,800	118,800
IEFA pooled financing program	2029	2.9%	27,866	27,866
Bank and other notes	2002	4.6%-7.2%	20,264	22,665
Total variable rate			<u>221,330</u>	<u>224,731</u>
Total Hospitals			<u>300,396</u>	<u>307,402</u>
Total notes and bonds payable			<u>\$ 853,412</u>	<u>820,191</u>

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

As of June 30, 2001 and 2000, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from notes and bonds payable was \$94,170 and \$94,945, respectively for the University, and \$106,525 and \$107,085, respectively for the Hospitals.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2002 through 2006 are approximately \$1,956, \$1,960, \$2,051, \$2,061, and \$2,086, respectively.

Principal payments required in each of the five years ending June 30, 2002 through 2006 for the Hospitals' notes and bonds are approximately \$6,922, \$9,285, \$5,475, \$5,480, and \$5,950, 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 \$10,200 as of June 30, 2001. In addition, at June 30, 2001, the University had approximately \$8,178 of assets held by trustees for debt service.

The Hospitals Series 1993, 1994C, 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. Among other provisions that limit the University's risk, the security lending agreement specifies that the custodian is responsible for the lending of securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. At June 30, 2001 and 2000, investment securities with an aggregate market value of \$698,640 and \$617,078, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of \$566,591 and \$529,830 and non-cash collateral of \$153,042, and \$101,115 at June 30, 2001 and 2000, respectively. In accordance with SFAS No. 140, the cash collateral is shown as both an asset and liability of the University.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

(9) Pledges

Pledges receivable at June 30, 2001 and 2000 are shown below:

	<u>2001</u>		<u>2000</u>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Unconditional promises expected to be collected in:				
Less than one year	\$ 36,877	4,344	36,532	1,244
One year to five years	96,928	17,121	98,374	1,409
More than five years	<u>1,691</u>	<u>4,089</u>	<u>1,720</u>	<u>—</u>
	135,496	25,554	136,626	2,653
Less unamortized discount and allowance for uncollectible pledges	<u>(22,663)</u>	<u>(3,300)</u>	<u>(27,714)</u>	<u>—</u>
Total	<u>\$ 112,833</u>	<u>22,254</u>	<u>108,912</u>	<u>2,653</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 year ended June 30, 2001, was \$4,000 per claim and \$20,000 in annual aggregate. The self insurance retention for the year ended June 30, 2000 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 \$22,000 higher than the amount recorded in the consolidated financial statements at June 30, 2001. The interest rate assumed in determining the present value was 7.6%.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(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 \$3,400 higher.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2001 and 2000 is presented below:

	2001		2000	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Medical malpractice	\$ 81,651	9,671	93,698	12,635
Workers' compensation	3,100	6,485	3,100	6,386
Other	<u>2,487</u>	<u>—</u>	<u>2,318</u>	<u>—</u>
Total	<u>\$ 87,238</u>	<u>16,156</u>	<u>99,116</u>	<u>19,021</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, 2001 and 2000

(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	
	2001	2000	2001	2000
Benefit obligation at March 31	\$ 241,775	207,570	45,033	36,735
Fair value of plan assets at March 31	330,110	416,743	17,807	17,066
Excess (deficiency) of plan assets over benefit obligation	\$ 88,335	209,173	(27,226)	(19,669)
Prepaid (accrued) benefit cost recognized in the consolidated balance sheets at June 30	\$ 90,170	75,908	(18,876)	(18,684)

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	
	2001	2000	2001	2000
Discount rate	7.5 %	8.0	7.5 %	8.0
Expected return on plan assets	8.5	8.5	6.0	6.0
Rate of compensation increase	4.5	4.5	—	—
Health care cost trend rates:				
Next two fiscal years	—	—	7.5	7.5
Next seven fiscal years	—	—	5.0	5.0
Thereafter	—	—	4.0	4.0

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(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	
	2001	2000	2001	2000
Benefit cost (income) included in the consolidated statements of activities	\$ (14,262)	(15,570)	3,463	3,381
Employer contributions	—	—	2,395	1,763
Plan participants' contributions	—	—	1,725	1,564
Benefits paid	20,229	18,349	4,120	3,328

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$20,317 in fiscal 2001 and \$18,995 in fiscal 2000.

In addition, Weiss Memorial Hospital maintains a separate defined benefit pension plan for certain of its employees. Assets of this plan approximated \$36,000 and \$38,000 at June 30, 2001 and 2000, and compared with the related projected benefit obligations of \$37,300 and \$33,600 for those years, respectively.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(in thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2001 and 2000 are shown below:

	2001	2000
University:		
Academic and research:		
Instruction	\$ 473,925	431,043
Research	131,078	120,025
Auxiliary enterprises	104,446	104,617
Library	15,299	14,498
Student services	25,662	24,278
Operation and maintenance of physical plant	67,330	61,480
Depreciation	47,315	43,429
Interest on notes and bonds	22,136	19,010
Total academic and research	887,191	818,380
Administration:		
Institutional support	60,381	53,091
Operation and maintenance of physical plant	2,260	2,097
Depreciation	3,275	3,211
Interest on notes and bonds	823	463
Total administration	66,739	58,862
Total University	953,930	877,242
Hospitals – hospital services	651,607	625,117
Total	\$ 1,605,537	1,502,359

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, 2001 and 2000

(in thousands of dollars)

(13) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's Board of Trustees are faculty members or officers of the University. Program related revenue for the years ended December 31, 2000 and 1999 was \$46,136 and \$39,619, respectively. Unrestricted net assets at December 31, 2000 and 1999 were \$5,195 and \$5,174, respectively. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

The University operates 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 \$511,197 in fiscal year 2001 and \$480,145 in fiscal year 2000 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, 2001 and 2000

(in thousands of dollars)

	<u>2001</u>	<u>2000</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 316,692	285,681
Less:		
Undergraduate student aid	(35,234)	(34,911)
Graduate student aid	<u>(95,741)</u>	<u>(79,165)</u>
Tuition and fees – net	185,717	171,605
Government grants and contracts	203,218	185,703
Private gifts, grants, and contracts	83,156	93,188
Endowment payout	116,767	98,781
Earnings on other investments	15,615	16,274
Patient care	133,027	129,162
Auxiliaries	133,920	127,882
Other income	<u>96,647</u>	<u>82,547</u>
Total operating revenue	<u>968,067</u>	<u>905,142</u>
Expenses:		
Compensation:		
Academic salaries	270,428	257,341
Staff salaries	228,386	211,550
Benefits	<u>102,012</u>	<u>93,113</u>
Total compensation	<u>600,826</u>	<u>562,004</u>
Other operating expenses:		
Utilities, alterations, and repairs	27,987	24,547
Depreciation	50,590	46,640
Interest	22,959	19,473
Supplies and services	243,776	217,738
Insurance	<u>7,792</u>	<u>6,840</u>
Total other operating expenses	<u>353,104</u>	<u>315,238</u>
Total operating expenses	<u>953,930</u>	<u>877,242</u>
Excess of operating revenue over expenses	<u>14,137</u>	<u>27,900</u>

THE UNIVERSITY OF CHICAGO

Statements of Activities Information – University

Years ended June 30, 2001 and 2000

(in thousands of dollars)

	<u>2001</u>	<u>2000</u>
Changes in unrestricted net assets:		
Nonoperating:		
Endowment payout	\$ 66	59
Investment gains (losses)	(417,973)	949,625
Change in method of accounting for Baptist Theological Union net assets	50,766	—
Change in method of accounting for gifts and grants restricted for buildings and equipment	—	(76,301)
Other, net	<u>(302)</u>	<u>7,438</u>
Change in unrestricted net assets from nonoperating activities	<u>(367,443)</u>	<u>880,821</u>
Increase (decrease) in unrestricted net assets	<u>(353,306)</u>	<u>908,721</u>
Changes in temporarily restricted net assets:		
Private gifts	39,625	115,858
Endowment payout	176	58
Investment gains (losses)	(1,912)	1,684
Change in method of accounting for gifts and grants restricted for buildings and equipment	—	76,301
Other, net	<u>(29,750)</u>	<u>(18,092)</u>
Increase in temporarily restricted net assets	<u>8,139</u>	<u>175,809</u>
Changes in permanently restricted net assets:		
Private gifts	42,845	36,324
Endowment payout	1,075	1,412
Investment gains (losses)	(3,100)	12,600
Change in method of accounting for Baptist Theological Union net assets	1,509	—
Other, net	<u>11,253</u>	<u>15,866</u>
Increase in permanently restricted net assets	<u>53,582</u>	<u>66,202</u>
Increase (decrease) in net assets	(291,585)	1,150,732
Net assets at beginning of year	<u>4,349,130</u>	<u>3,198,398</u>
Net assets at end of year	<u>\$ 4,057,545</u>	<u>4,349,130</u>

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Balance Sheet Information – University

June 30, 2001 and 2000

(in thousands of dollars)

Assets	2001	2000
Cash and cash equivalents	\$ 8,395	14,604
Notes and accounts receivable	213,774	206,496
Collateral held for securities loaned	566,591	529,830
Inventories	9,142	8,699
Prepaid expenses and other assets	122,621	109,188
Pledges receivable	112,833	108,912
Investments	3,778,903	4,182,278
Land, buildings, equipment, and books	<u>702,076</u>	<u>610,581</u>
Total assets	<u>\$ 5,514,335</u>	<u>5,770,588</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 126,679	125,058
Deferred revenue	59,085	57,928
Payable under securities loan agreements	566,591	529,830
Assets held in custody for others	26,171	59,471
Self-insurance liability	87,238	99,116
Notes and bonds payable	553,016	512,789
Refundable U.S. Government student loan funds	<u>38,010</u>	<u>37,266</u>
Total liabilities	<u>1,456,790</u>	<u>1,421,458</u>
Net assets:		
Unrestricted	3,136,731	3,490,037
Temporarily restricted	259,975	251,836
Permanently restricted	<u>660,839</u>	<u>607,257</u>
Total net assets	<u>4,057,545</u>	<u>4,349,130</u>
Total liabilities and net assets	<u>\$ 5,514,335</u>	<u>5,770,588</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, 2001 and 2000, 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 14% and 16% and total change in net assets constituting 12% and 4% of the related consolidated totals in 2001 and 2000, 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 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 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, 2001 and 2000, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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





As discussed in note 1 to the financial statements, the University adopted the provisions of Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, in fiscal year 2001.

KPMG LLP

October 17, 2001