



The University of Chicago

2014–2015

Financial Statements and Supplemental University Information



THE UNIVERSITY OF CHICAGO

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THE UNIVERSITY OF CHICAGO

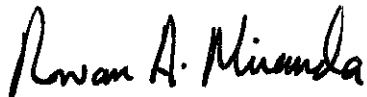
Management's Responsibility for Consolidated Financial Statements

The management of The University of Chicago (University) is responsible for the preparation and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 4 to 47, have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.


The consolidated financial statements have been audited by the independent accounting firm KPMG LLP (KPMG), which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. KPMG did not audit the financial statements of The University of Chicago Medical Center (the Medical Center) and their opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of PricewaterhouseCoopers LLP, the independent auditors for the Medical Center. The University believes that all representations made to KPMG during its audit were valid and appropriate. KPMG's audit opinion is presented on pages 2 and 3.

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

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



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Vice President for Operations
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Independent Auditors' Report

The Board of Trustees
The University of Chicago:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Chicago (the University), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 19% and 19% and total revenues constituting 43% and 42% of the related consolidated totals in 2015 and 2014, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Chicago as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited The University of Chicago's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information included in schedules 1 through 3 and the Management's Responsibility Report are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidating supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The Management's Responsibility Report has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Chicago, Illinois
October 29, 2015

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2015 and 2014

(In thousands of dollars)

Assets	2015	2014
Cash and cash equivalents	\$ 198,355	103,010
Notes and accounts receivable, net	426,799	385,643
Prepaid expenses and other assets	170,014	118,713
Pledges receivable, net	522,820	509,365
Investments	8,365,085	8,232,050
Land, buildings, equipment, and books, net	4,409,265	4,249,105
Total assets	<u>\$ 14,092,338</u>	<u>13,597,886</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 828,434	746,623
Deferred revenue	103,795	88,388
Assets held in custody for others	65,785	62,158
Self-insurance liability	270,903	257,762
Pension and other postretirement benefit obligations	478,141	450,677
Asset retirement obligation	59,118	59,783
Notes and bonds payable	4,205,070	3,700,862
Refundable U.S. government student loan funds	39,041	38,711
Total liabilities	<u>6,050,287</u>	<u>5,404,964</u>
Net assets:		
Unrestricted	2,597,309	2,805,178
Temporarily restricted	3,588,616	3,644,424
Permanently restricted	1,856,126	1,743,320
Total net assets	<u>8,042,051</u>	<u>8,192,922</u>
Total liabilities and net assets	<u>\$ 14,092,338</u>	<u>13,597,886</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 737,883	706,731
Less student aid	(348,920)	(327,518)
Tuition and fees – net	388,963	379,213
Government grants and contracts	357,061	344,850
Private gifts, grants, and contracts	241,430	236,528
Endowment payout	439,221	392,118
Earnings on other investments	1,323	3,899
Patient care	1,681,002	1,593,911
Auxiliaries	218,334	208,725
Other income	301,734	284,515
Net assets released from restrictions	87,400	75,015
Total operating revenue	<u>3,716,468</u>	<u>3,518,774</u>
Expenses:		
Compensation:		
Academic salaries	526,371	505,660
Staff salaries	1,097,039	1,034,184
Benefits	456,093	417,567
Total compensation	<u>2,079,503</u>	<u>1,957,411</u>
Other operating expenses:		
Utilities, alterations, and repairs	92,971	90,406
Depreciation	255,972	247,974
Interest	130,736	129,916
Supplies, services, and other	1,101,094	1,032,105
Insurance	42,821	38,490
Total other operating expenses	<u>1,623,594</u>	<u>1,538,891</u>
Total operating expenses	<u>3,703,097</u>	<u>3,496,302</u>
Excess of operating revenue over expenses	<u>\$ 13,371</u>	<u>22,472</u>

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains (losses)	\$ (101,434)	178,845
Postretirement benefit changes other than net periodic benefit cost	(29,718)	34,016
Affiliation – MBL net assets as of July 1, 2013	—	89,999
Change in value of derivative instruments	(18,775)	(7,577)
Loss on debt refinancing	(70,958)	—
Other, net	(355)	(25,546)
	<u>(221,240)</u>	<u>269,737</u>
Change in unrestricted net assets from nonoperating activities		
Increase (decrease) in unrestricted net assets	<u>(207,869)</u>	<u>292,209</u>
Changes in temporarily restricted net assets:		
Private gifts	143,635	172,128
Investment gains (losses)	(67,023)	323,792
Affiliation – MBL net assets as of July 1, 2013	—	16,730
Other, net	(45,020)	(33,633)
Net assets released from restrictions	(87,400)	(75,015)
	<u>(55,808)</u>	<u>404,002</u>
Increase (decrease) in temporarily restricted net assets		
Changes in permanently restricted net assets:		
Private gifts	81,619	119,042
Affiliation – MBL net assets as of July 1, 2013	—	51,256
Endowment payout	1,880	1,969
Investment losses	(426)	(3,013)
Other, net	29,733	22,236
	<u>112,806</u>	<u>191,490</u>
Increase in permanently restricted net assets		
Increase (decrease) in net assets	<u>(150,871)</u>	<u>887,701</u>
Net assets at beginning of year	<u>8,192,922</u>	<u>7,305,221</u>
Net assets at end of year	\$ <u><u>8,042,051</u></u>	\$ <u><u>8,192,922</u></u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Years ended June 30, 2015 and 2014
(In thousands of dollars)

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (150,871)	887,701
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Affiliation – MBL net assets as of July 1, 2013	—	(157,985)
Depreciation	255,972	247,974
Change in value of derivative instruments	21,016	8,704
Loss on debt refinancing	70,258	—
Loss on disposal of land, buildings, equipment, and books	3,541	10,695
Gain on sale of property	(8,217)	—
Donated property	(4,726)	—
Net gain on investments	(185,883)	(786,040)
Private gifts and grants restricted for long-term investment	(222,321)	(287,042)
Other nonoperating changes	171,135	185,952
Postretirement benefit changes other than net periodic benefit cost	29,718	(33,414)
Changes in operating assets and liabilities:		
Notes and accounts receivable	(40,131)	9,315
Prepaid expenses and other assets	(52,119)	(12,412)
Accounts payable and other liabilities	66,426	75,556
Self-insurance liability	13,141	(15,930)
Total adjustments	117,810	(754,627)
Net cash provided by (used in) operating activities	(33,061)	133,074
Cash flows from investing activities:		
Affiliation – MBL cash and cash equivalents as of July 1, 2013	—	1,543
Purchase of investments	(1,739,633)	(1,958,015)
Proceeds from sale of investments	1,790,492	2,273,401
Acquisition of land, buildings, equipment, and books	(503,871)	(650,297)
Proceeds from sale of property	110,462	—
Loans disbursed	(7,262)	(6,844)
Principal collected on loans	7,522	6,602
Net cash used in investing activities	(342,290)	(333,610)
Cash flows from financing activities:		
Proceeds from issuance of debt instruments	2,399,654	1,412,121
Principal payments on debt instruments	(1,965,352)	(1,315,191)
Proceeds from private gifts and grants restricted for long-term investment	138,597	130,982
Other nonoperating changes	(102,203)	(114,448)
Net cash provided by financing activities	470,696	113,464
Increase (decrease) in cash and cash equivalents	95,345	(87,072)
Cash and cash equivalents at:		
Beginning of year	103,010	190,082
End of year	\$ 198,355	103,010
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 134,121	140,465

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Description of Business

The University of Chicago (the University) is a private, nondenominational, coeducational institution of higher learning and research. The University provides education and training services, primarily for students enrolled in undergraduate, graduate, and professional degree programs, and performs research, training, and other services under grants, contracts, and other agreements with sponsoring organizations, including both government agencies and private enterprises. Certain members of the University's faculty also provide professional medical services to patients at The University of Chicago Medical Center (the Medical Center) and other healthcare facilities located in the area.

On July 1, 2013, the University entered into an affiliation agreement with the Marine Biological Laboratory (MBL) in Woods Hole, Massachusetts. Under this affiliation, the University became the sole member of MBL. MBL's net assets of \$157,985 at July 1, 2013 have been recognized as a contribution in the consolidated statement of activities in fiscal year 2014.

Significant accounting policies followed by the University, the Medical Center, and MBL are set forth as follows. Accounting policies specific to the Medical Center and MBL are discussed in notes 2 and 3, respectively.

(b) Basis of Presentation

The consolidated financial statements of the University have been prepared on the accrual basis and include the accounts of the University, the Medical Center, and MBL. The organization of the Medical Center and MBL and associated agreements with the University are discussed in notes 2 and 3, respectively.

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

For reporting purposes, however, the University follows the reporting requirements of the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide for Not-for-Profit Entities*, which require that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three classes of net assets-unrestricted, temporarily restricted, and permanently restricted. Descriptions of the three net asset categories and the types of transactions affecting each category follow:

- Unrestricted – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University-instruction, conduct of sponsored research, and provision of healthcare services. In addition to these exchange transactions, changes in this category of net assets include investment returns on unrestricted “funds functioning as endowment” funds, actuarial adjustments to self-insurance liabilities, and certain types of philanthropic support.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

Such philanthropic support includes unrestricted gifts, including those designated by the Board of Trustees (the Board) to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.

- Temporarily Restricted – Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts, pledges for which the ultimate purpose of the proceeds is not permanently restricted, investment returns on “true” endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on temporarily restricted net assets, including amortization of restricted gifts and grants for buildings and equipment, are reported as net assets released from restrictions.
- Permanently Restricted – Net assets subject to donor-imposed restrictions to be maintained permanently by the University. Items that affect this net asset category include gifts and pledges wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income be made available for program operations, and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

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

<u>Detail of net assets</u>	<u>2015</u>		<u>2014</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
University:				
Operating	\$ 18,005	—	12,183	—
Pledges	408,579	110,557	399,529	103,738
Student loans	—	21,794	—	21,088
Endowment	2,856,193	1,624,856	2,934,645	1,515,726
Annuity and life income	27,139	37,805	27,738	43,030
Net investment in physical properties	168,499	—	157,999	—
Subtotal	<u>3,478,415</u>	<u>1,795,012</u>	<u>3,532,094</u>	<u>1,683,582</u>
Medical Center:				
Operating	9,927	—	9,005	—
Pledges	2,614	10	4,481	10
Endowment	73,568	8,092	74,468	8,082
Subtotal	<u>86,109</u>	<u>8,102</u>	<u>87,954</u>	<u>8,092</u>
Marine Biological Laboratory:				
Operating	2,894	—	4,432	—
Pledges	396	664	470	1,137
Annuity and life income	968	459	302	401
Endowment	19,834	51,889	19,172	50,108
Subtotal	<u>24,092</u>	<u>53,012</u>	<u>24,376</u>	<u>51,646</u>
Total	<u>\$ 3,588,616</u>	<u>1,856,126</u>	<u>3,644,424</u>	<u>1,743,320</u>

(c) Operations

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

(d) Tuition and Fees

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

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2015 and 2014 are \$46,533 and \$46,633, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2015 and 2014 consist of the following:

	2015				2014
	University	Medical Center	MBL	Consolidated	Consolidated
Private gifts:					
Unrestricted as to use	\$ 21,384	584	1,912	23,880	27,771
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	122,025	—	—	122,025	118,442
Private grants and contracts	90,120	—	5,405	95,525	90,315
Total	\$ 233,529	584	7,317	241,430	236,528

(f) Patient Care

Patient service revenue is reported net of a provision for doubtful accounts of \$6,450 and \$8,402 for the University and \$52,166 and \$55,169 for the Medical Center for the years ended June 30, 2015 and 2014, respectively. This provision reflects the estimated net realizable amounts due from third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments under these agreements and programs are based on specific amounts per case or contracted prices. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

(g) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2015 and 2014, the amount of interest capitalized amounted to \$17,480 and \$11,522 for the University and \$300 and \$60 for the Medical Center, respectively.

(h) Fair Value

Fair value is defined as the price that the University would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The University uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the University. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 – quoted market prices in active markets for identical investments

Level 2 – inputs other than quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or inputs other than quoted prices that are observable including model-based valuation techniques

Level 3 – valuation techniques that use significant inputs that are unobservable because they trade infrequently or not at all

- **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. Cash equivalents are considered Level 1 in the fair value hierarchy.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

- ***Investments***

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds such as private debt, private equity, real estate, natural resources, and absolute return are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015 and 2014, the University had no plans to sell investments at amounts different from NAV.

The University does not engage directly in unhedged speculative investments; however, the Board has authorized the use of derivative investments to adjust market exposure within asset class ranges.

A summary of the inputs used in valuing the University's investments as of June 30, 2015 and 2014 is included in Note 4.

- ***Pledges Receivable***

Unconditional promises to give are recognized initially at fair value as private gift revenue in the period the promise is made by a donor. Fair value of the pledge is estimated based on anticipated future cash receipts (net of an allowance for uncollectible amounts), discounted using a risk-adjusted rate commensurate with the duration of the payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible amounts is reassessed and adjusted if necessary.

- ***Land, Buildings, Equipment, and Books***

Land, buildings, equipment, and books are generally stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 20 to 45 years for buildings and building improvements, 3 to 10 years for equipment, and 10 years for library books.

- ***Split-Interest Agreements***

Split-interest agreements with donors consist primarily of charitable remainder trusts for which the University serves as trustee, gift annuity contracts, and pooled life income agreements. Assets associated with split-interest agreements are included in investments. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. At June 30, 2015 and 2014, the University had liabilities of \$55,757 and \$53,838

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

associated with its charitable remainder trust and gift annuity contracts and deferred revenue of \$5,441 and \$5,784 associated with its pooled income agreements, respectively. In subsequent periods, the discount rate is unchanged.

- ***Interest Rate Swap Agreements***

In order to reduce exposure to adjustable interest rates on variable rate debt, the University has entered into debt-related interest rate swap agreements. These agreements have the effect of fixing the rate of interest for the variable rate debt. The fair value of these swap agreements is the estimated amount that the University would have to pay or receive to terminate the agreements as of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

- ***Assets Held in Custody For Others***

Assets held in custody for others consists of resources, primarily investments, held by the University as a custodian for affiliated organizations. Investments held for others are included in the University's investment portfolio. The leveling of these investments is presented in Note 4.

- ***Self-insurance Liability***

The 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 investment returns on available assets prior to payment. The discount rate used to value the self-insurance liability is a risk-adjusted rate commensurate with the duration of anticipated payments. These inputs to the fair value estimate of the liability are considered Level 2 in the fair value hierarchy.

- ***Pension and Other Postretirement Benefit Obligations***

The pension and other postretirement benefit obligation considers anticipated payout patterns as well as investment returns on available assets prior to payment. The discount rate used to value the pension and other postretirement benefit obligation is a risk-adjusted rate commensurate with the duration of anticipated payments. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

- ***Asset Retirement Obligation***

Asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. The obligation to remove asbestos is estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In thousands of dollars)

- ***Notes and Bonds Payable***

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

- ***All Other Assets and Liabilities***

The carrying value of all other assets and liabilities do not differ materially from its estimated fair value.

(i) ***Internally Managed Investment Derivatives***

The following tables set forth the gross and net notional values and the University's gain (loss) related to internally managed investment derivative activities as of June 30, 2015 and 2014 and for the fiscal years then ended:

		2015		
		Gross notional	Net notional	Gain (loss)
Interest rate derivatives	\$	—	—	68
Currency derivatives		—	—	1,791
Equity derivatives		105,371	105,371	9,479
Total	\$	105,371	105,371	11,338

		2014		
		Gross notional	Net notional	Gain (loss)
Interest rate derivatives	\$	12,719	12,719	378
Currency derivatives		37,782	—	(2,581)
Equity derivatives		71,369	71,369	(26,039)
Total	\$	121,870	84,088	(28,242)

To minimize the risk of loss, externally managed absolute return investments are diversified by strategy, external manager, and number of positions. In addition, the activities of external hedge fund managers are reviewed by their independent auditors and the University Investment Office. The risk of any derivative exposure associated with an externally managed hedge fund is limited to the amount invested with each manager. Investment managers report derivative investments at fair value and valuation gains and losses are included in investment gains in the consolidated statements of activities.

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(j) *Income Taxes*

The University, Medical Center, and MBL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, except for unrelated business income, are exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2015 and 2014 and there are no uncertain tax positions considered to be material.

(k) *Use of Estimates*

The preparation of the consolidated 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 consolidated balance sheet date, and the reporting of revenue, expenses, gains, and losses during the reporting period. Actual results may differ from those estimates.

(l) *Recent Accounting Pronouncement*

During 2015, the University adopted ASU No. 2015-07 – *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at Net Asset Value (NAV) (or its equivalent) under the practical expedient in the FASB's fair value measurement guidance.

(m) *Subsequent Events*

The University has performed an evaluation of subsequent events through October 29, 2015, which is the date the consolidated financial statements were issued.

In August 2015, the University issued \$415,825 in fixed rate bonds through the Illinois Finance Authority (IFA) and \$150,505 in taxable fixed rate bonds. Proceeds were used to 1) advance refund \$230,320 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational facilities. See note 8.

In October 2015, the University sold twenty-one residential properties previously held for sale for \$70,100. See note 7.

(2) *The University of Chicago Medical Center*

(a) *Organization*

The Medical Center, an Illinois not-for-profit corporation, operates the Center for Care and Discovery, the Bernard Mitchell Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, and various other outpatient clinics and treatment areas. The University, as the sole corporate member of the Medical Center, elects the Medical Center's Board of Trustees, and approves its bylaws.

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(b) *Agreements with the University*

The relationship between the University and the Medical Center is defined in an Affiliation Agreement and an Operating Agreement along with an associated Lease Agreement. The Affiliation Agreement specifies University and Medical Center responsibilities for the provision of patient care, teaching, and research at the hospitals and clinics. The Operating Agreement provides for the management and operation by the Medical Center of the University's hospital and clinic facilities. The Lease Agreement provides the Medical Center a leasehold interest in certain University facilities and land.

(c) *Community Benefits*

The Medical Center's policy is to treat patients in immediate need of medical services without regard to their ability to pay for such services, including patients transferred from other hospitals and patients accepted through the Perinatal and Pediatrics Trauma Networks. Patients are offered discounts of up to 100% of charges on a sliding scale based both on income as a percentage of the Federal Poverty Level guidelines and the charges for services rendered. The Medical Center policy also contains provisions that are responsive to those patients subject to catastrophic healthcare expenses. Since the Medical Center does not pursue collection of these amounts, they are not reported as net patient care revenue. The unreimbursed cost of providing such care, along with the unreimbursed cost of government sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research, and other community programs amounted to \$291,703 and \$294,555 for the years ended June 30, 2015 and 2014, respectively.

(d) *Basis of Presentation*

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the AICPA *Audit and Accounting Guide for Health Care Organizations*. For purposes of presentation of the Medical Center financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) investment gains used for operations of \$43,895 in fiscal year 2015 and \$40,658 in 2014 have been recorded as unrestricted operating revenue and (2) transfers to the University of \$72,935 in fiscal year 2015 and \$53,574 in fiscal year 2014 have been recorded as a reduction of other income.

(3) *Marine Biological Laboratory (MBL)*

(a) *Organization*

MBL is a private, independent not-for-profit research and educational institution dedicated to establishing and maintaining a laboratory and station for scientific study and investigations, and a school for instruction in biology and natural history. The Laboratory is located in Woods Hole, Massachusetts. The University is the sole corporate member of MBL, elects MBL's Board of Trustees, and approves its bylaws.

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(b) Agreements with the University

The relationship between the University and MBL is defined in an Affiliation Agreement which specifies the University and MBL responsibilities for the provision of research and education in biology, biomedicine, ecology, and related fields.

(c) Basis of Presentation

MBL maintains its accounts and prepares stand-alone financial statements on a calendar year basis. MBL's financial position and changes in net assets in the consolidated financial statements reflect fiscal year activity for the period July 1 to June 30.

(4) Investments

Investments at June 30, 2015 and 2014 comprise the following:

	2015				2014
	University	Medical Center	MBL	Consolidated	
Cash equivalents	\$ 246,550	23,027	8,473	278,050	244,482
Global public equities (primarily international)	1,471,070	197,876	15,988	1,684,934	1,580,608
Private debt	275,544	31,372	3,278	310,194	232,832
Private equity:					
U.S. venture capital	351,040	68,005	4,190	423,235	397,844
U.S. corporate finance	323,999	36,875	3,961	364,835	362,187
International	370,561	42,357	4,471	417,389	448,996
Real estate	464,569	50,933	5,406	520,908	625,796
Natural resources	453,555	51,676	5,508	510,739	677,160
Absolute return:					
Equity-oriented	615,038	70,046	7,415	692,499	558,965
Global macro/relative value	496,767	56,579	6,000	559,346	471,658
Multistrategy	509,846	72,043	6,193	588,082	613,278
Credit-oriented	301,918	34,386	3,639	339,943	212,513
Protection-oriented	131,220	14,945	1,582	147,747	124,138
Fixed income:					
U.S. treasuries, including TIPS	359,336	116,025	4,325	479,686	578,433
Other fixed income (primarily credit funds)	763,397	130,659	7,979	902,035	1,008,855
Funds in trust	124,010	21,453	—	145,463	94,305
Total	\$ 7,258,420	1,018,257	88,408	8,365,085	8,232,050

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(a) Overall Investment Objective

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The University diversifies its investments among various asset classes incorporating multiple strategies and external investment managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees the University's investment program in accordance with established guidelines.

(b) Investment Strategies

• **Value Based on Quoted Market Prices in Active Markets**

Cash equivalent investments include cash equivalents and fixed-income investments, with maturities of less than one year, which are valued based on quoted market prices in active markets. The majority of these investments are held in U.S. money market accounts. Global public equity investments consist of separate accounts, commingled funds with liquidity ranging from daily to monthly, and limited partnerships. Securities held in separate accounts and daily-traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly liquidity are valued based on independently determined NAV. Limited partnership interests in equity-oriented funds are valued based upon NAV provided by external fund managers.

Fixed-income investments consist of directly held actively traded treasuries, separately managed accounts, commingled funds, and bond mutual funds that hold securities, the majority of which have maturities greater than one year and are valued based on quoted market prices in active markets, except for a commingled fund that is valued on independently determined NAV.

Funds in trust investments consist primarily of project construction funds and externally managed endowments.

• **Value Measured at Net Asset Value**

Investments in private debt, private equity, real estate, and natural resources are in the form of limited partnership interests, which typically invest in private securities for which there is no readily determinable market value. In these cases, market value is determined by external managers based on a combination of discounted cash flow analysis, industry comparables, and outside appraisals. Where private equity, real estate, and natural resources managers hold publicly traded securities, these securities are generally valued based on market prices. The value of the limited partnership interests are held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used by managers to assess the NAV of these external investments vary by asset class. The University monitors the valuation methodologies and practices of managers.

The absolute return portfolio is comprised of investments of limited partnership interests in hedge funds and drawdown private equity style partnerships whose managers have the authority to invest

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in various asset classes at their discretion, including the ability to invest long and short. The majority of the underlying holdings are marketable securities. The remainder of the underlying holdings is held in marketable securities that trade infrequently or in private investments, which are valued by the manager on the basis of an appraised value, discounted cash flow, industry comparables, or some other method. Most hedge funds that hold illiquid investments designate them in special side pockets, which are subject to special restrictions on redemption.

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2015 and 2014. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

(c) ***Fair Value Hierarchy of Investments***

Following is the fair value hierarchy of investments as of June 30, 2015:

	Level 1	Level 2	2015 Consolidated total
Cash equivalents	\$ 278,050	—	278,050
Global public equities (primarily international)	489,975	35,377	525,352
Real estate	20,990	—	20,990
Natural resources	32,628	—	32,628
Absolute return:			
Global macro/relative value	99,597	—	99,597
Fixed income:			
U.S. treasuries, including TIPS	420,130	—	420,130
Other fixed income (primarily credit funds)	822,400	—	822,400
Funds in trust	139,005	—	139,005
	2,302,775	35,377	2,338,152
Investments measured at net asset value			6,026,933
Total investments at fair value as of June 30, 2015			\$ 8,365,085

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Following is the fair value hierarchy of investments as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	2014 Consolidated total
Cash equivalents	\$ 244,492	—	244,492
Global public equities (primarily international)	894,416	375,586	1,270,002
Private equity:			
U.S. venture capital	2,511	—	2,511
Real estate	12,801	—	12,801
Absolute return:			
Equity-oriented	79,416	132,342	211,758
Global macro/relative value	56,106	116,662	172,768
Multi-strategy	—	67,343	67,343
Protection-oriented	—	124,138	124,138
Fixed income:			
U.S. treasuries, including TIPS	510,346	—	510,346
Other fixed income (primary credit funds)	1,008,855	—	1,008,855
Funds in trust	92,295	—	92,295
	<u>\$ 2,901,238</u>	<u>816,071</u>	<u>3,717,309</u>
Investments measured at net asset value			<u>4,514,741</u>
Total investments at fair value as of June 30, 2014			<u>\$ 8,232,050</u>

During fiscal years 2015 and 2014, there were no transfers between investment Levels 1 and 2.

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A summary of the University's investment return for the years ended June 30, 2015 and 2014 is presented as follows:

	2015				2014
	University	Medical Center	MBL	Consolidated	Consolidated
Investment return:					
Interest and dividends	\$ 75,405	41,398	900	117,703	144,138
Net realized and unrealized gains	161,705	(8,138)	2,271	155,838	753,472
Investment return	\$ 237,110	33,260	3,171	273,541	897,610

Investment return is reported in the accompanying consolidated statements of activities as endowment payout, earnings on other investments, and investment gains (losses).

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2015, the University had unfunded commitments of \$1,082,425, which are likely to be called through 2021. Details of these commitments are as follows:

	Unfunded commitments
Private equity	\$ 376,581
Real estate	231,032
Natural resources	194,863
Absolute return	40,966
Private debt	238,983
Total	\$ 1,082,425

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The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups, and gates. Details on typical redemption terms by asset class and type of investment are provided as follows:

	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions or side pockets at June 30, 2015
Cash	N/A	Daily	None	None
Global public equities: Commingled funds	N/A	Daily to triennial with notice periods of 2 to 90 days	Lock-up provisions for up to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$0.6 million
Partnerships	N/A	Monthly to biennial with notice periods of 10 to 90 days	Lock-up provisions for up to 4 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$32.2 million
Separate accounts	N/A	Daily with notice periods of 1 to 7 days	Lock-up provisions ranging for up to 1 year	None
Private debt: Drawdown partnerships	1 to 12 years	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Redemptions not permitted	Capital held in side pockets with no redemptions permitted	\$1.2 million
Private equity Drawdown partnerships	1 to 18 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 1 day	None	None

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	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions or side pockets at June 30, 2015
Real estate				
Drawdown partnerships	1 to 17 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 5 days	None	None
Natural resources				
Drawdown partnerships	1 to 18 years	Redemptions not permitted	N/A	N/A
Commingled Funds	N/A	Daily with notice period of 1 day	None	None
Absolute return:				
Commingled funds	N/A	Daily to triennial with notice periods of 1 to 122 days	Lock-up provisions for up to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$23.2 million
Drawdown partnerships	1 to 5 years	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Quarterly to triennial with notice periods of 45 to 180 days	Lock-up provisions for up to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$122.7 million
Fixed income:				
Commingled funds	N/A	Daily to monthly with notice periods of 5 to 10 days	None	None
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None	None
Funds in Trust	N/A	Daily	None	None

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(5) Endowments

The University's endowment consists of approximately 3,500 individual funds established for a variety of purposes. The endowment includes both donor-restricted "true" endowment funds and funds designated by the Board to function as endowments commonly referred to as "funds functioning as endowment." Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) University Endowment

Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2015:

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 22,533	51,025	496	74,054
Net appreciation (realized and unrealized) on investments	61,764	98,094	958	160,816
Total investment return	84,297	149,119	1,454	234,870
Endowment payout	(169,002)	(220,553)	(1,880)	(391,435)
Net investment return	(84,705)	(71,434)	(426)	(156,565)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	1,676	102,716	104,392
Transfers to create funds functioning as endowment	55,296	—	—	55,296
Other changes	286	(8,694)	16,590	8,182
Total other changes in endowment investments	55,582	(7,018)	119,306	167,870
Net change in endowment investments	(29,123)	(78,452)	118,880	11,305
Endowment investments at:				
Beginning of year	2,009,883	2,934,645	1,515,726	6,460,254
End of year	\$ 1,980,760	2,856,193	1,634,606	6,471,559
Investments by type of fund				
Donor-restricted "true" endowment	\$ (1,457)	2,856,193	1,634,606	4,489,342
Board-designated "funds functioning as endowment"	1,982,217	—	—	1,982,217
Total – as above	\$ 1,980,760	2,856,193	1,634,606	6,471,559

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Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2014:

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 30,090	70,044	675	100,809
Net appreciation (realized and unrealized) on investments	223,768	444,006	(1,719)	666,055
Total investment return	253,858	514,050	(1,044)	766,864
Endowment payout	(136,543)	(207,795)	(1,969)	(346,307)
Net investment return	117,315	306,255	(3,013)	420,557
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	85	99,043	99,128
Transfers to create funds functioning as endowment	37,913	—	—	37,913
Other changes	3,476	1	12,211	15,688
Total other changes in endowment investments	41,389	86	111,254	152,729
Net change in endowment investments	158,704	306,341	108,241	573,286
Endowment investments at:				
Beginning of year	1,851,179	2,628,304	1,407,485	5,886,968
End of year	\$ 2,009,883	2,934,645	1,515,726	6,460,254
Investments by type of fund				
Donor-restricted "true" endowment	\$ (808)	2,934,645	1,515,726	4,449,563
Board-designated "funds functioning as endowment"	2,010,691	—	—	2,010,691
Total – as above	\$ 2,009,883	2,934,645	1,515,726	6,460,254

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(b) Medical Center Endowment

Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2015:

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 40,491	907	—	41,398
Net appreciation (realized and unrealized) on investments	(13,703)	1,879	—	(11,824)
Total investment return	26,788	2,786	—	29,574
Endowment payout	(43,486)	(4,095)	—	(47,581)
Net investment return	(16,698)	(1,309)	—	(18,007)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	10	10
Transfers to create funds functioning as endowment	32,000	—	—	32,000
Withdrawal to finance capital expenditures	(21,332)	—	—	(21,332)
Other changes	(1,187)	409	—	(778)
Total other changes in endowment investments	9,481	409	10	9,900
Net change in endowment investments	(7,217)	(900)	10	(8,107)
Endowment investments at:				
Beginning of year	921,696	74,468	8,082	1,004,246
End of year	\$ 914,479	73,568	8,092	996,139
Investments by type of fund				
Donor-restricted "true" endowment	\$ —	73,568	8,092	81,660
Board-designated "funds functioning as endowment"	914,479	—	—	914,479
Total – as above	\$ 914,479	73,568	8,092	996,139

Included in board-designated "funds functioning as endowment" are \$221,768 of net assets that are separately invested by the Medical Center.

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Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2014:

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 37,212	1,207	—	38,419
Net appreciation (realized and unrealized) on investments	67,078	8,092	—	75,170
Total investment return	<u>104,290</u>	<u>9,299</u>	<u>—</u>	<u>113,589</u>
Endowment payout	(40,272)	(3,850)	—	(44,122)
Net investment return	<u>64,018</u>	<u>5,449</u>	<u>—</u>	<u>69,467</u>
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	2,000	2,000
Transfers to create funds functioning as endowment	87,500	—	—	87,500
Return of endowment used to finance capital expenditures	64,084	—	—	64,084
Other changes	(1,196)	385	—	(811)
Total other changes in endowment investments	<u>150,388</u>	<u>385</u>	<u>2,000</u>	<u>152,773</u>
Net change in endowment investments	214,406	5,834	2,000	222,240
Endowment investments at:				
Beginning of year	707,290	68,634	6,082	782,006
End of year	<u>\$ 921,696</u>	<u>74,468</u>	<u>8,082</u>	<u>1,004,246</u>
Investments by type of fund				
Donor-restricted "true" endowment	\$ —	74,468	8,082	82,550
Board-designated "funds functioning as endowment"	921,696	—	—	921,696
Total – as above	<u>\$ 921,696</u>	<u>74,468</u>	<u>8,082</u>	<u>1,004,246</u>

Included in board-designated "funds functioning as endowment" are \$253,235 of net assets that are separately invested by the Medical Center.

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(c) **MBL**

Changes in the fair value of the MBL endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2015:

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 112	786	—	898
Net appreciation (realized and unrealized) on investments	724	1,546	—	2,270
Total investment return	836	2,332	—	3,168
Endowment payout	(328)	(1,757)	—	(2,085)
Net investment return	508	575	—	1,083
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	1,782	1,782
Other changes	24	87	1	112
Total other changes in endowment investments	24	87	1,783	1,894
Net change in endowment investments	532	662	1,783	2,977
Endowment investments at:				
Beginning of year	9,755	19,172	50,108	79,035
End of year	\$ 10,287	19,834	51,891	82,012
Investments by type of fund				
Donor-restricted "true" endowment	\$ —	19,834	51,891	71,725
Board-designated "funds functioning as endowment"	10,287	—	—	10,287
Total – as above	\$ 10,287	19,834	51,891	82,012

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Changes in the fair value of the MBL endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2014:

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	\$ 109	902	—	1,011
Net appreciation (realized and unrealized) on investments	1,279	10,586	—	11,865
Total investment return	1,388	11,488	—	12,876
Endowment payout	(499)	(3,159)	—	(3,658)
Net investment return	889	8,329	—	9,218
Other changes in endowment investments:				
Gifts and pledge payments received in cash	290	—	907	1,197
Affiliation - MBL endowment as of July 1, 2013	8,275	11,270	49,201	68,746
Other changes	301	(427)	—	(126)
Total other changes in endowment investments	8,866	10,843	50,108	69,817
Net change in endowment investments	9,755	19,172	50,108	79,035
Endowment investments at:				
Beginning of year	—	—	—	—
End of year	\$ 9,755	19,172	50,108	79,035
Investments by type of fund				
Donor-restricted “true” endowment	\$ —	19,172	50,108	69,280
Board-designated “funds functioning as endowment”	9,755	—	—	9,755
Total – as above	\$ 9,755	19,172	50,108	79,035

(d) Interpretation of Relevant Law

The “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) was enacted in the state of Illinois in 2009. Although UPMIFA does not preclude the University from spending below the original gift value of donor-restricted “true” endowment funds, for accounting and reporting purposes, the University and Medical Center classify as permanently restricted net assets the historical value of donor-restricted “true” endowment funds, which includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted “true” endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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(e) Endowment Payout

Approximately 97% of the University, Medical Center, and MBL endowment is merged into one investment pool referred to as the Total Return Investment Pool (TRIP). The University utilizes the total return concept in allocating endowment income from TRIP. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board with the objective of a 5% average payout over time, was 5.5% for the fiscal years ended June 30, 2015 and 2014. Periodically, the University's Board will adjust the endowment payout to fund specifically approved strategic initiatives.

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

The endowment payout is comprised of the TRIP formula payout, payout from separately held investments, as well as special payouts for the funding of Alumni Relations and Development and University-wide strategic initiatives as follows:

	2015				2014 Consolidated
	University	Medical Center	MBL	Consolidated	
TRIP formula payout	\$ 319,849	38,856	2,085	360,790	335,084
Payout from separately invested endowment	3,123	8,725	—	11,848	17,657
Special payouts:					
Alumni Relations and Development	20,245	—	—	20,245	19,466
Strategic initiatives	48,218	—	—	48,218	21,880
Total	<u>\$ 391,435</u>	<u>47,581</u>	<u>2,085</u>	<u>441,101</u>	<u>394,087</u>

(f) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted "true" endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, which, as of June 30, 2015 and 2014, amounted to \$1,457 and \$808, respectively.

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(6) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2015 and 2014 are shown as follows:

	2015			2014
	Receivable	Allowance for doubtful accounts	Net receivable	
University:				
Patients	\$ 23,445	(1,103)	22,342	20,180
Students:				
Loans	46,678	(2,500)	44,178	43,883
Tuition and fees	3,507	(1,350)	2,157	3,244
U.S. government	47,899	—	47,899	46,874
All other	100,331	(5,214)	95,117	82,416
Total University	<u>221,860</u>	<u>(10,167)</u>	<u>211,693</u>	<u>196,597</u>
Medical Center	261,473	(51,737)	209,736	184,765
MBL	5,405	(35)	5,370	4,281
Total	<u>\$ 488,738</u>	<u>(61,939)</u>	<u>426,799</u>	<u>385,643</u>

Accounts receivable are carried at estimated net realizable value. Management regularly assesses the adequacy of the allowance for doubtful accounts, and balances are written off when deemed permanently uncollectible.

(7) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2015 and 2014 are shown as follows:

	University	Center	MBL	Consolidated	Consolidated
Land	\$ 121,446	36,008	53,083	210,537	210,537
Buildings	3,384,801	1,385,018	102,318	4,872,137	4,531,448
Equipment	489,208	512,531	23,575	1,025,314	1,005,459
Books	341,723	—	842	342,565	324,866
Construction in progress	501,316	55,238	42	556,596	473,326
Subtotal	<u>4,838,494</u>	<u>1,988,795</u>	<u>179,860</u>	<u>7,007,149</u>	<u>6,545,636</u>
Less accumulated depreciation	<u>(1,779,248)</u>	<u>(756,011)</u>	<u>(68,193)</u>	<u>(2,603,452)</u>	<u>(2,394,049)</u>
Subtotal	3,059,246	1,232,784	111,667	4,403,697	4,151,587
Residential properties held for sale	5,568	—	—	5,568	97,518
Total	<u>\$ 3,064,814</u>	<u>1,232,784</u>	<u>111,667</u>	<u>4,409,265</u>	<u>4,249,105</u>

On October 21, 2015, the University sold the residential properties held for sale for \$70,100.

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(8) Notes and Bonds Payable

Notes and bonds payable at June 30, 2015 and 2014 are shown as follows:

	<u>Fiscal year</u> <u>maturity</u>	<u>Interest rate</u>	<u>2015</u>	<u>2014</u>
University:				
Fixed rate:				
Illinois Finance Authority (IFA)	2035–2053	3.2%–5.6%	\$ 1,566,424	1,398,850
Taxable bonds	2031–2046	4.2–5.2	864,270	691,005
Unamortized premium			132,558	65,274
Total fixed rate			<u>2,563,252</u>	<u>2,155,129</u>
Variable rate:				
IEFA	2026–2037	0.1–1.9	301,211	302,542
IFA	2035	0.1	81,669	84,291
Taxable commercial paper (\$200,000 available)	2016	0.1	100,000	150,000
Bank lines of credit (\$350,000 available)	2016	0.1	250,500	138,200
Total variable rate			<u>733,380</u>	<u>675,033</u>
Total University			<u>3,296,632</u>	<u>2,830,162</u>
Medical Center:				
Fixed rate:				
Illinois Health Facilities Authority (IHFA)			—	7,410
IFA	2027–2045	3.9–5.5	714,810	719,655
Unamortized premium			12,016	9,797
Total fixed rate			<u>726,826</u>	<u>736,862</u>
Variable rate:				
IEFA	2020	3.1	75,000	24,706
IEFA	2038	0.1	77,717	79,517
Bank line of credit (\$40,000 available)	2016	—	—	—
Total variable rate			<u>152,717</u>	<u>104,223</u>
Total Medical Center			<u>879,543</u>	<u>841,085</u>
MBL:				
Fixed rate:				
Massachusetts Development Finance Authority	2015–2018	3.5	28,895	29,615
Variable rate:				
Bank line of credit (\$3,000 available)	2016	—	—	—
Total MBL			<u>28,895</u>	<u>29,615</u>
Total notes and bonds payable			<u>\$ 4,205,070</u>	<u>3,700,862</u>

As of June 30, 2015, the University, Medical Center, and MBL fixed rate notes and bonds payable include variable rate debt with interest rates that have been fixed through interest rate swap agreements which amounted to \$183,959, \$325,000, and \$28,895, respectively. As of June 30, 2014, the University, Medical Center, and MBL fixed rate notes and bonds payable include variable rate debt with interest rates that have been fixed through interest rate swap agreements which amounted \$186,905, \$325,000, and \$29,615, respectively.

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(In thousands of dollars)

(a) Fiscal 2015 Transactions

During fiscal year 2015, the University issued \$573,645 in fixed rate bonds through the IFA and \$175,685 in taxable fixed rate bonds. Proceeds were used to 1) advance refund \$397,905 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational and research facilities.

During fiscal year 2015, the Medical Center issued \$21,895 in fixed rate revenue bonds through the IFA. Proceeds were used to advance refund a portion of other IFA fixed rate bonds.

(b) Defeased Debt

As of June 30, 2015 and 2014, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$397,905 and \$102,935, respectively.

(c) Interest Rate Swaps

At June 30, 2015 and 2014, the fair value of the interest rate swap agreements was an accrued liability of \$160,125 and \$139,108, respectively as follows:

	2015	2014
University	\$ 45,222	39,138
Medical Center	110,447	95,810
MBL	4,456	4,160
Total	\$ 160,125	139,108

Changes in the fair value of the interest rate swap agreements are included in other unrestricted nonoperating changes in the accompanying consolidated statements of activities for the years ended June 30, 2015 and 2014 as follows:

	2015	2014
University	\$ (6,083)	(1,631)
Medical Center	(12,396)	(5,914)
MBL	(296)	(32)
Total	\$ (18,775)	(7,577)

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These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness.

The Medical Center maintains two cash flow hedges against interest on variable rate debt which were entered into in August 2011 and have a combined notional amount of \$325,000. The interest rate swaps terminate on February 1, 2044.

The Medical Center is required to provide collateral on one of the interest rate swap agreements when the liability of that swap exceeds \$50,000. If the Medical Center's credit rating were to be downgraded one level; collateral would need to be provided under the swap with JP Morgan when the liability of that swap exceeds \$40,000 and under the Wells Fargo swap when the liability of that swap exceeds \$60,000. Upon further downgrade, the collateral requirements increase. At June 30, 2015 and 2014, \$5,030 and \$0 was held as collateral, respectively.

(d) Debt Payments

Principal payments required in each of the five years ending June 30, 2016 through 2020 for the University notes and bonds are approximately \$23,651, \$36,853, \$52,346, \$19,964, and \$35,475, respectively.

Principal payments required in each of the five years ending June 30, 2016 through 2020 for the Medical Center notes and bonds are approximately \$12,778, \$13,255, \$13,868, \$14,513, and \$15,208, respectively.

Principal payments required in each of the five years ending June 30, 2016 through 2020 for MBL's notes and bonds are approximately \$750, \$780, \$810, \$840, and \$875, respectively.

(e) Collateral

Each of the Medical Center bond series is collateralized by unrestricted receivables and subject to certain restrictions. In addition, the Medical Center variable rate bonds are guaranteed by bank letters of credit.

(f) Remarketing

Included in the University, Medical Center, and MBL's notes and bonds payable are \$917,339, \$477,717, and \$28,895, respectively, of variable rate notes and bonds maturing through fiscal year 2045. In the event the University, Medical Center, or MBL's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University, Medical Center, and MBL have standby bond purchase agreements totaling \$400,000, \$402,717, and \$29,164, respectively, which support variable rate debt in the event of a failed remarketing.

In addition, the University has a standby bond purchase agreement of \$106,363 in support of its IFA variable rate bonds, which, through an interest rate swap agreement, carry a synthetically fixed interest rate.

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(g) Subsequent Event

In August 2015, the University issued \$415,825 in fixed rate bonds through the IFA and \$150,505 in taxable fixed rate bonds. Proceeds were used to 1) advance refund \$234,265 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational facilities.

(9) Pledges

Pledges receivable at June 30, 2015 and 2014 are shown as follows:

	2015			2014	
	University	Medical Center	MBL	Consolidated	Consolidated
Unconditional promises expected to be collected in:					
Less than one year	\$ 130,901	1,102	832	132,835	132,039
One year to five years	265,066	1,522	239	266,827	246,206
More than five years	223,630	—	—	223,630	234,550
	<u>619,597</u>	<u>2,624</u>	<u>1,071</u>	<u>623,292</u>	<u>612,795</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(100,461)</u>	<u>—</u>	<u>(11)</u>	<u>(100,472)</u>	<u>(103,430)</u>
Total	<u>\$ 519,136</u>	<u>2,624</u>	<u>1,060</u>	<u>522,820</u>	<u>509,365</u>

The University's five largest pledges comprise 93% of pledges expected to be collected in more than five years. Included in this amount is the estimated fair value of a nonmarketable equity investment (based on discounted cash flow and market multiples) specifically aligned with a promise to give, the proceeds of which, when sold, will be used to satisfy the pledge.

In addition, at June 30, 2015, the University has received \$361,766 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, or future income from pledged investments. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(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, 2015 and 2014, was \$5,000 per claim and unlimited in the aggregate. Claims in excess of \$5,000 are subject to an additional self-insurance retention limited to \$12,500 per claim and \$22,500 in annual aggregate for the year ended June 30, 2015 and \$12,500 in annual aggregate for the year ended June 30, 2014. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

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Under the medical malpractice self-insurance program, the University and Medical Center make 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 \$43,429 higher than the amount recorded in the consolidated financial statements at June 30, 2015. The interest rate assumed in determining the present value was 4.25%. The University recorded unrestricted nonoperating actuarial income adjustments of \$4,796 and \$(3,756) during the years ended June 30, 2015 and 2014, respectively, which are included in the accompanying consolidated statements of activities.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2015 and 2014 is presented as follows:

	2015			2014 Consolidated
	University	Medical Center	Consolidated	
Medical malpractice	\$ 250,444	—	250,444	238,552
Workers' compensation	7,740	8,174	15,914	15,096
Others	4,545	—	4,545	4,114
Total	\$ 262,729	8,174	270,903	257,762

(11) Pension Plans and Other Postretirement Benefits

Substantially all personnel of the University participate in either the defined contribution pension plan for academic staff or the defined benefit and contribution pension plans for nonacademic personnel. The majority of Medical Center employees participate in the University's pension plans for nonacademic employees. The University and Medical Center make annual contributions to the defined benefit pension plans at a rate necessary to maintain plan funding on an actuarially recommended basis. Based primarily on participation, the University and Medical Center share equally in contributions made to the defined benefit pension plans. In fiscal year 2009, the University's 403(b) defined benefit pension plan was frozen and a new 401(a) plan was initiated to be in compliance with revised Internal Revenue Service regulations. Because this change does not impact participant benefits, information pertaining to these plans has been combined for financial reporting and disclosure purposes.

In addition to providing pension benefits, the University and MBL provide certain healthcare benefits for retired employees and a retirement incentive bonus for eligible faculty electing to participate in a retirement incentive program. In addition to a retirement bonus, all Medicare eligible-tenured faculty who elect to participate in the retirement incentive program receive supplemental health insurance at no cost for themselves and their spouses. All other academic and nonacademic employees are entitled to supplemental health insurance coverage subject to deductibles, copayment provisions, and other limitations.

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2015	2014	2015	2014
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 916,791	795,133	223,509	252,747
Service cost	41,070	35,779	10,401	10,112
Interest cost	38,137	38,291	9,715	11,165
Benefits paid	(40,076)	(39,285)	(10,054)	(9,520)
Plan amendment	—	—	—	(50,613)
Actuarial (gain) loss, net	(1,036)	86,873	7,808	9,618
Benefit obligation at end of year	954,886	916,791	241,379	223,509
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	671,793	557,966	21,089	5,002
Actual return on plan assets	(848)	88,112	1,492	2,087
Employer contributions	65,000	65,000	18,009	23,520
Benefits paid	(40,076)	(39,285)	(10,054)	(9,520)
Fair value of plan assets at end of year	695,869	671,793	30,536	21,089
Funded status – liability	\$ (259,017)	(244,998)	(210,843)	(202,420)

The accumulated benefit obligation for the defined benefit pension plans was \$821,030 and \$784,550 at June 30, 2015 and 2014, respectively.

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(a) Components of Net Periodic Benefit Cost

	Defined benefit pension plans		Other postretirement benefit plans	
	2015	2014	2015	2014
Service cost	\$ 41,070	35,779	10,401	10,112
Interest cost	38,137	38,291	9,715	11,165
Expected return on plan assets	(41,177)	(37,013)	(1,859)	(1,228)
Amortization of prior service cost (benefit)	1,134	1,134	(7,506)	(5,705)
Amortization of actuarial loss	28,335	24,811	5,240	5,723
Net periodic benefit cost	\$ 67,499	63,002	15,991	20,067
Amounts included in the consolidated statements of activities:				
University	\$ 34,999	30,502	15,991	20,067
Medical Center	32,500	32,500	—	—
Total	\$ 67,499	63,002	15,991	20,067

(b) Actuarial Assumptions

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2015	2014	2015	2014
Discount rate	4.5%	4.3%	4.6%	4.4%
Expected return on plan assets	6.5	6.5	6.5	6.5
Rate of compensation increase	3.5	3.5	4.4	3.5
Healthcare cost trend rates:				
Next two fiscal years			6.7%–7.0%	7.0%–7.2%
Next seven fiscal years			5.3%–6.5%	5.5%–6.7%
Thereafter			4.5%–5.1%	4.5%–5.3%

The expected return on plan assets assumptions for both the defined benefit pension plan and the other postretirement benefit plans is determined based on models that incorporate a number of different methodologies, including historical returns and capital market forecasts.

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

		<u>2015</u>	<u>2014</u>
Effect on total service cost and interest cost:			
One-percentage-point increase	\$	3,725	4,248
One-percentage-point decrease		(2,868)	(3,240)
Effect on year-end postretirement benefit obligation:			
One-percentage-point increase	\$	36,814	34,743
One-percentage-point decrease		(29,278)	(27,553)

(c) **Plan Assets**

Weighted average asset allocations as of fiscal year end by asset category are as follows:

	Defined benefit pension plans		Other postretirement benefit plans	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Domestic public equities	25%	28%	50%	51%
International public equities	24	18	—	—
Fixed income	51	54	50	49
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

As of June 30, 2015, 76% of plan assets for the defined benefit pension plans are invested in cash, mutual funds, exchange traded funds, or separately managed accounts comprised of individual securities and are valued based on quoted market prices in active markets for identical investments (Level 1). The remaining 24% of plan assets are primarily invested in commingled funds and limited partnerships generally reported at NAV by external fund managers.

The defined benefit plans combined target asset allocation of 48% public equities and 52% fixed income securities is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments. Plan assets for the other postretirement benefit plans are managed by the University and were held in mutual funds (Level 1) at June 30, 2015.

(d) **Contributions**

The University expects to make a \$4,653 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a \$65,000 contribution to the defined benefit pension plans in fiscal year 2016.

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(e) ***Estimated Future Benefits Payments***

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

<u>Fiscal year</u>	<u>Defined benefit pension plans</u>	<u>Other postretirement benefit plans</u>
2016	\$ 74,746	8,065
2017	50,099	8,980
2018	52,716	9,936
2019	54,767	10,660
2020	57,246	11,361
2021 – 2025	327,528	68,270

(f) ***Prescription Drug Act***

The Medicare Prescription Drug, Improvement, and Modernization Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. Effective January 1, 2014, the University ceased its participation in the Part D Retiree Drug Subsidy (RDS) program and began providing prescription drug benefits to Medicare eligible retirees through an Employer Group Waiver Plan (EGWP) design. As a result, the University is eligible for reimbursement from the federal government prescription drug program and, in addition, is eligible for government mandated rebates from pharmaceutical companies that participate in the Medicare Part D program. The University has recognized the effect of these subsidies in the calculation of its postretirement benefit obligation, the impact of which was to reduce the benefit obligation by \$41,600 at June 30, 2015.

(g) ***Curtailed Pension Plan***

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2015 and 2014, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of \$8,281 and \$3,259 at June 30, 2015 and 2014, respectively.

(h) ***Defined Contribution Pension Plan***

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to \$49,758 in fiscal year 2015 and \$47,727 in fiscal year 2014 for the University and \$12,600 in fiscal year 2015 and \$11,700 in fiscal year 2014 for the Medical Center.

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(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2015 and 2014 are shown as follows:

	<u>2015</u>	<u>2014</u>
University:		
Academic and research:		
Instruction	\$ 1,008,092	947,614
Research	258,760	250,469
Auxiliary enterprises	158,657	144,301
Library	17,332	17,524
Student services	76,470	70,098
Operation and maintenance of physical plant	133,863	136,180
Depreciation	139,559	129,244
Interest on notes and bonds	71,365	69,047
Total academic and research	<u>1,864,098</u>	<u>1,764,477</u>
Administration:		
Institutional support	137,015	116,537
Informational services	59,899	55,170
Development and alumni relations	73,460	68,458
Operation and maintenance of physical plant	11,917	11,172
Depreciation	29,813	30,479
Interest on notes and bonds	22,688	26,236
Total administration	<u>334,792</u>	<u>308,052</u>
Total University	<u>2,198,890</u>	<u>2,072,529</u>
Medical Center:		
Healthcare service	1,359,252	1,285,218
General and administrative	99,897	92,922
Total Medical Center	<u>1,459,149</u>	<u>1,378,140</u>
MBL:		
Academic and research	39,978	40,276
General and administrative	5,080	5,357
Total MBL	<u>45,058</u>	<u>45,633</u>
Total University	<u>\$ 3,703,097</u>	<u>3,496,302</u>

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

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(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, 2014 and 2013 was \$171,512 and \$154,621, respectively. Net assets at December 31, 2014 and 2013 were \$33,486 and \$29,158, 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, through its affiliate UChicago Argonne, LLC, operates Argonne National Laboratory (ANL) under a contract with the U.S. Department of Energy (DOE). This contract provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The University is the sole member of UChicago Argonne, LLC; however, the performance fee is shared with a subcontractor that assists UChicago Argonne, LLC with the management and operation of ANL.

The University, as a member of Fermi Research Alliance, LLC (FRA), also operates Fermi National Accelerator Laboratory (Fermilab) on behalf of DOE. The Fermilab contract between DOE and FRA provides for the payment of a fixed management allowance and an additional performance fee. The University shares the performance fee with Universities Research Association, the other member of FRA, and with a subcontractor that assists FRA with the management and operation of Fermilab.

The expenditures under the respective contracts and the related reimbursements of \$731,287 for ANL and \$372,774 for Fermilab in fiscal year 2015, and \$762,814 for ANL and \$386,600 for Fermilab in fiscal year 2014 are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

(14) Contingencies

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

THE UNIVERSITY OF CHICAGO

Combining Balance Sheet

June 30, 2015

(In thousands of dollars)

Assets		University	Medical Center	MBL	2015 Consolidated
Cash and cash equivalents	\$	31,636	163,969	2,750	198,355
Notes and accounts receivable, net		211,693	209,736	5,370	426,799
Prepaid expenses and other assets		105,002	62,498	2,514	170,014
Pledges receivable, net		519,136	2,624	1,060	522,820
Investments		7,258,420	1,018,257	88,408	8,365,085
Land, buildings, equipment, and books, net		3,064,814	1,232,784	111,667	4,409,265
Total assets	\$	<u>11,190,701</u>	<u>2,689,868</u>	<u>211,769</u>	<u>14,092,338</u>
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$	394,768	424,645	9,021	828,434
Deferred revenue		99,272	—	4,523	103,795
Assets held in custody for others		65,169	—	616	65,785
Self-insurance liability		262,729	8,174	—	270,903
Pension and other postretirement benefit obligations		469,860	8,281	—	478,141
Asset retirement obligation		51,440	7,678	—	59,118
Notes and bonds payable		3,296,632	879,543	28,895	4,205,070
Refundable U.S. government student loan funds		39,041	—	—	39,041
Total liabilities		<u>4,678,911</u>	<u>1,328,321</u>	<u>43,055</u>	<u>6,050,287</u>
Net assets:					
Unrestricted		1,238,363	1,267,336	91,610	2,597,309
Temporarily restricted		3,478,415	86,109	24,092	3,588,616
Permanently restricted		1,795,012	8,102	53,012	1,856,126
Total net assets		<u>6,511,790</u>	<u>1,361,547</u>	<u>168,714</u>	<u>8,042,051</u>
Total liabilities and net assets	\$	<u>11,190,701</u>	<u>2,689,868</u>	<u>211,769</u>	<u>14,092,338</u>

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Combining Statement of Activities

Year ended June 30, 2015

(In thousands of dollars)

	<u>University</u>	<u>Medical Center</u>	<u>MBL</u>	<u>2015 Consolidated</u>
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	\$ 735,384	—	2,499	737,883
Less student aid	(347,152)	—	(1,768)	(348,920)
Tuition and fees – net	388,232	—	731	388,963
Government grants and contracts	341,430	—	15,631	357,061
Private gifts, grants, and contracts	233,529	584	7,317	241,430
Endowment payout	389,555	47,581	2,085	439,221
Earnings on other investments	1,322	—	1	1,323
Patient care	239,352	1,441,650	—	1,681,002
Auxiliaries	213,960	—	4,374	218,334
Other income	276,050	24,438	1,246	301,734
Net assets released from restrictions	85,460	—	1,940	87,400
Total operating revenue	<u>2,168,890</u>	<u>1,514,253</u>	<u>33,325</u>	<u>3,716,468</u>
Expenses:				
Compensation:				
Academic salaries	518,272	—	8,099	526,371
Staff salaries	556,019	533,116	7,904	1,097,039
Benefits	301,920	148,793	5,380	456,093
Total compensation	<u>1,376,211</u>	<u>681,909</u>	<u>21,383</u>	<u>2,079,503</u>
Other operating expenses:				
Utilities, alterations, and repairs	55,998	34,500	2,473	92,971
Depreciation	169,372	81,902	4,698	255,972
Interest	94,053	35,632	1,051	130,736
Supplies, services, and other	477,966	608,432	14,696	1,101,094
Insurance	25,290	16,774	757	42,821
Total other operating expenses	<u>822,679</u>	<u>777,240</u>	<u>23,675</u>	<u>1,623,594</u>
Total operating expenses	<u>2,198,890</u>	<u>1,459,149</u>	<u>45,058</u>	<u>3,703,097</u>
Excess (deficiency) of operating revenue over expenses	\$ (30,000)	55,104	(11,733)	13,371

THE UNIVERSITY OF CHICAGO

Combining Statement of Activities

Year ended June 30, 2015

(In thousands of dollars)

	<u>University</u>	<u>Medical Center</u>	<u>MBL</u>	<u>2015 Consolidated</u>
Changes in unrestricted net assets:				
Nonoperating:				
Investment gains (losses)	\$ (84,705)	(17,107)	378	(101,434)
Postretirement benefit changes other than net periodic benefit cost	(21,959)	(8,192)	433	(29,718)
Change in value of derivative instruments	(6,083)	(12,396)	(296)	(18,775)
Loss on debt refinancing	(70,258)	(700)		(70,958)
Other, net	(19,075)	4,771	13,949	(355)
Change in unrestricted net assets from nonoperating activities	(202,080)	(33,624)	14,464	(221,240)
Increase (decrease) in unrestricted net assets	(232,080)	21,480	2,731	(207,869)
Changes in temporarily restricted net assets:				
Private gifts	139,105	2,697	1,833	143,635
Investment gains (losses)	(70,516)	2,786	707	(67,023)
Other, net	(36,808)	(7,328)	(884)	(45,020)
Net assets released from restrictions	(85,460)	—	(1,940)	(87,400)
Increase (decrease) in temporarily restricted net assets	(53,679)	(1,845)	(284)	(55,808)
Changes in permanently restricted net assets:				
Private gifts	80,250	10	1,359	81,619
Endowment payout	1,880	—	—	1,880
Investment losses	(426)	—	—	(426)
Other, net	29,726	—	7	29,733
Increase in permanently restricted net assets	111,430	10	1,366	112,806
Increase (decrease) in net assets	(174,329)	19,645	3,813	(150,871)
Net assets at beginning of year	6,686,119	1,341,902	164,901	8,192,922
Net assets at end of year	\$ 6,511,790	1,361,547	168,714	8,042,051

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Combining Statement of Cash Flows

Year ended June 30, 2015

(In thousands of dollars)

	<u>University</u>	<u>Medical Center</u>	<u>MBL</u>	<u>2015 Consolidated</u>
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ (174,329)	19,645	3,813	(150,871)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Depreciation	169,372	81,902	4,698	255,972
Change in value of derivative instruments	6,083	14,637	296	21,016
Loss on debt refinancing	70,258	—	—	70,258
(Gain) loss on disposal of land, buildings, equipment, and books	3,538	(10)	13	3,541
Gain on sale of property	(8,217)	—	—	(8,217)
Donated property	(4,726)	—	—	(4,726)
Net gain on investments	(161,735)	(20,720)	(3,428)	(185,883)
Private gifts and grants restricted for long-term investment	(219,355)	(2,697)	(269)	(222,321)
Other nonoperating changes	114,535	70,501	(13,901)	171,135
Postretirement benefit changes other than net periodic benefit cost	21,959	8,192	(433)	29,718
Changes in operating assets and liabilities:				
Notes and accounts receivable	(15,356)	(24,971)	196	(40,131)
Prepaid expenses and other assets	(39,732)	(12,678)	291	(52,119)
Accounts payable and other liabilities	1,529	63,062	1,835	66,426
Self-insurance liability	13,208	(67)	—	13,141
Total adjustments	(48,639)	177,151	(10,702)	117,810
Net cash provided by (used in) operating activities	(222,968)	196,796	(6,889)	(33,061)
Cash flows from investing activities:				
Purchase of investments	(1,388,420)	(346,607)	(4,606)	(1,739,633)
Proceeds from sale of investments	1,418,516	370,733	1,243	1,790,492
Acquisition of land, buildings, equipment, and books	(391,364)	(109,524)	(2,983)	(503,871)
Proceeds from sale of property	110,462	—	—	110,462
Loans disbursed	(7,262)	—	—	(7,262)
Principal collected on loans	7,522	—	—	7,522
Net cash used in investing activities	(250,546)	(85,398)	(6,346)	(342,290)
Cash flows from financing activities:				
Proceeds from issuance of debt instruments	2,324,780	74,874	—	2,399,654
Principal payments on debt instruments	(1,928,568)	(36,064)	(720)	(1,965,352)
Proceeds from private gifts and grants restricted for long-term investment	133,764	4,564	269	138,597
Other nonoperating changes	(44,811)	(70,501)	13,109	(102,203)
Net cash provided by (used in) financing activities	485,165	(27,127)	12,658	470,696
Increase (decrease) in cash and cash equivalents	11,651	84,271	(577)	95,345
Cash and cash equivalents at:				
Beginning of year	19,985	79,698	3,327	103,010
End of year	\$ 31,636	163,969	2,750	198,355
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 97,141	35,953	1,027	134,121

See accompanying independent auditors' report.