THE UNIVERSITY OF CHICAGO

Consolidated Financial Statements and
Supplemental Information

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO

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Management Responsibility for Consolidated Financial Statements

The management of The University of Chicago (University) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 3 to 42, have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

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

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

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

Nimalan Chinniah	John R. Kroll
Vice President for Administration	Associate Vice President for
and Chief Financial Officer	Finance

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Trustees
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago (the University) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 18% and 16% and total revenues constituting 35% and 44% of the related consolidated totals in 2010 and 2009, 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in notes 3 and 4 to the consolidated financial statements, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (formerly Statement of Financial Accounting Standards (FAS) No. 157, *Fair Value Measurements*), and FASB ASC Topic 958, *Not-for-Profit Entities*, (formerly FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds),* effective July 1, 2008 and June 30, 2009, respectively.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, based on our audits and with respect to the amounts included for the Medical Center, the report of other auditors, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

October 13, 2010

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2010 and 2009

(In thousands of dollars)

Assets		**2010**	**2009**
Cash and cash equivalents	$	123,758	102,200
Notes and accounts receivable		302,738	320,145
Prepaid expenses and other assets		118,645	101,642
Pledges receivable		387,163	424,851
Investments		6,482,759	5,727,858
Land, buildings, equipment, and books		2,954,669	2,707,926
Total assets	$	10,369,732	9,384,622
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	564,737	492,659
Deferred revenue		85,365	88,509
Assets held in custody for others		55,269	44,771
Self-insurance liability		254,208	228,469
Pension and other postretirement benefit obligations		514,277	392,309
Asset retirement obligation		65,220	65,547
Notes and bonds payable		2,714,911	2,415,371
Refundable U.S. government student loan funds		37,511	37,853
Total liabilities		4,291,498	3,765,488
Net assets:			
Unrestricted		2,042,652	1,864,211
Temporarily restricted		2,741,835	2,554,784
Permanently restricted		1,293,747	1,200,139
Total net assets		6,078,234	5,619,134
Total liabilities and net assets	$	10,369,732	9,384,622

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2010 and 2009

(In thousands of dollars)

	2010	2009
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	$ 573,724	542,103
Less student aid	(256,040)	(243,664)
Tuition and fees – net	317,684	298,439
Government grants and contracts	394,394	356,822
Private gifts, grants, and contracts	137,823	128,353
Endowment payout	346,165	319,040
Earnings on other investments	1,824	2,239
Patient care	1,266,499	1,223,946
Auxiliaries	199,823	193,009
Other income	184,887	177,070
Net assets released from restrictions	69,163	57,991
Total operating revenue	2,918,262	2,756,909
Expenses:		
Compensation:		
Academic salaries	426,017	417,986
Staff salaries	800,062	817,819
Benefits	331,637	308,505
Total compensation	1,557,716	1,544,310
Other operating expenses:		
Utilities, alterations, and repairs	70,928	81,190
Depreciation	193,062	160,181
Interest	44,964	48,809
Supplies, services, and other	832,314	786,105
Insurance	61,532	50,270
Total other operating expenses	1,202,800	1,126,555
Total operating expenses	2,760,516	2,670,865
Excess of operating revenue over expenses	157,746	86,044

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2010 and 2009

(In thousands of dollars)

		2010	2009
Changes in unrestricted net assets:			
Nonoperating:			
Investment gains (losses)	$	105,316	(1,685,564)
Postretirement benefit changes other than net periodic benefit cost		(140,065)	(152,763)
Other, net		55,444	(105,321)
Change in unrestricted net assets from nonoperating activities		20,695	(1,943,648)
Increase (decrease) in unrestricted net assets before a reclassification of endowment net assets		178,441	(1,857,604)
Endowment net asset reclassification		—	(1,914,401)
Increase (decrease) in unrestricted net assets		178,441	(3,772,005)
Changes in temporarily restricted net assets:			
Private gifts		67,418	221,527
Investment gains		282,318	8,064
Other, net		(93,522)	(6,969)
Net assets released from restrictions		(69,163)	(57,991)
Increase in temporarily restricted net assets before a reclassification of endowment net assets		187,051	164,631
Endowment net asset reclassification		—	1,914,401
Increase in temporarily restricted net assets		187,051	2,079,032
Changes in permanently restricted net assets:			
Private gifts		39,246	37,728
Endowment payout		3,861	2,856
Investment gains (losses)		6,193	(12,773)
Other, net		44,308	2,306
Increase in permanently restricted net assets		93,608	30,117
Increase (decrease) in net assets		459,100	(1,662,856)
Net assets at beginning of year		5,619,134	7,281,990
Net assets at end of year	$	6,078,234	5,619,134

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands of dollars)

		2010	2009
Cash flows from operating activities:			
Increase (decrease) in net assets	$	459,100	(1,662,856)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Depreciation		193,062	160,181
Loss on disposal of land, buildings, equipment, and books		4,733	2,099
Net (gain) loss on investments		(713,615)	1,412,662
Private gifts and grants restricted for long-term investment		(106,597)	(259,174)
Other nonoperating changes		100,818	118,987
Postretirement benefit changes other than net periodic benefit cost		140,065	152,763
Changes in assets and liabilities:			
Notes and accounts receivable		(7,760)	10,553
Prepaid expenses and other assets		5,778	(18,539)
Accounts payable and other liabilities		1,052	10,881
Self-insurance liability		25,739	26,721
Total adjustments		(356,725)	1,617,134
Net cash provided by (used in) operating activities		102,375	(45,722)
Cash flows from investing activities:			
Purchase of investments		(2,521,911)	(1,616,691)
Proceeds from sale of investments		2,480,447	1,652,908
Acquisition of land, buildings, equipment, and books		(425,489)	(523,931)
Loans disbursed		(4,229)	(4,204)
Principal collected on loans		29,396	50,391
Net cash used in investing activities		(441,786)	(441,527)
Cash flows from financing activities:			
Proceeds from issuance of notes and bonds payable		688,053	1,948,093
Principal payments on notes and bonds payable		(386,687)	(1,470,552)
Proceeds from private gifts and grants restricted for long-term investment		84,739	116,017
Other nonoperating changes		(25,136)	(103,724)
Net cash provided by financing activities		360,969	489,834
Increase in cash and cash equivalents		21,558	2,585
Cash and cash equivalents at:			
Beginning of year		102,200	99,615
End of year	$	123,758	102,200
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	77,798	92,310

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

Significant accounting policies followed by the University and the Medical Center are set forth as follows. Accounting policies specific to the Medical Center are discussed in note 2.

(b) Basis of Presentation

The consolidated financial statements of the University have been prepared on the accrual basis and include the accounts of the University and the Medical Center. The organization of the Medical Center and agreements between the University and the Medical Center are discussed in note 2.

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

For reporting purposes, however, the University follows the reporting requirements of the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide for Not-for-Profit Organizations*, which 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 endowment funds, actuarial adjustments to self-insurance liabilities, and certain types of philanthropic support. Such philanthropic support includes unrestricted gifts, including those designated by the Board to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.

(In thousands of dollars)

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

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

		2010		2009	
Detail of net assets		**Temporarily restricted**	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
University:					
Operating	$	11,025	—	34,951	—
Pledges		320,461	56,788	335,996	69,510
Student loans		—	18,078	—	16,982
Endowment		2,144,096	1,190,234	1,891,030	1,086,659
Annuity and life income		13,092	22,544	10,422	20,865
Net investment in physical properties		175,785	—	179,295	—
Subtotal		2,664,459	1,287,644	2,451,694	1,194,016
Medical center:					
Operating		8,660	—	31,475	—
Pledges		9,872	42	19,273	77
Endowment		58,844	6,061	52,342	6,046
Subtotal		77,376	6,103	103,090	6,123
Total	$	2,741,835	1,293,747	2,554,784	1,200,139

(c) Operations

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

(In thousands of dollars)

(d) Tuition and Fees

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

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2010 and 2009 are $46,782 and $52,925, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2010 and 2009 consist of the following:

		2010		2009
	University	Medical Center	Consolidated	Consolidated
Private gifts:				
Unrestricted as to use	$ 17,886	1,105	18,991	21,159
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	48,653	—	48,653	41,603
Private grants and contracts	70,179	—	70,179	65,591
Total	$ 136,718	1,105	137,823	128,353

(f) Patient Care

Net patient service revenue reflects the estimated net realizable amounts due from third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments under these agreements and programs are based on specific amounts per case or contracted prices. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

(g) Cash Equivalents

Cash equivalents include U.S. Treasury notes, commercial paper, and corporate notes with original maturities of three months or less, except that such instruments purchased with endowment assets or funds on deposit with bond trustees are classified as investments.

(h) Investments

Investments are recorded in the consolidated financial statements at estimated fair value. 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 equity, real assets, 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, 2010 and 2009, 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 of trustees has authorized derivative investments to adjust market exposure within asset class ranges, hedge nondollar investments, and currencies, and provide for defensive portfolio strategies. During fiscal 2010 and 2009 and as of June 30, 2010 and 2009, the University had no directly held derivative investments.

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 all external hedge fund managers are regularly reviewed by their independent outside auditors and the University Investment Office. The risk of any derivative exposure associated with an externally managed hedge fund is limited to the amount invested with each manager. Investment managers record derivative investments at fair value and valuation gains and losses are included in the consolidated statements of activities.

(i) Land, Buildings, Equipment, and Books

Land, buildings, equipment, and books are generally stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 20 to 45 years for buildings and building improvements, 5 to 10 years for equipment, and 10 years for library books.

(j) Asset Retirement Obligation

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

(k) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments. Contribution revenue is recognized at the dates the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

(l) Income Taxes

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except to the extent the University has unrelated business income, is exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2010 and 2009. The University concluded there were no material uncertain tax positions.

(m) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date, and the reporting of revenue, expenses, gains, and losses during the period. Actual results may differ from those estimates.

(n) Recent Accounting Pronouncements

In June 2009, FASB Accounting Standards Codification (ASC) Topic 105 was issued, which established the FASB ASC as the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The University has applied this guidance in the preparation of the University's financial statements as of June 30, 2010.

In September 2009, the FASB issued FASB Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share* (ASU 2009-12). This standard adds disclosures, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the net asset value per share (NAV) to be used as a practical expedient for fair value. The University adopted the measurement provisions of this guidance in fiscal 2009 and the disclosure provisions of this guidance in fiscal 2010.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements*. This guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for those transfers, valuation techniques, and the inputs used in determining fair value for each class of assets and liabilities. This guidance becomes effective July 1, 2010. In addition, the guidance requires the separate presentation of purchases and sales in the Level 3 asset reconciliation. This piece of the guidance becomes effective July 1, 2011.

Adoption of the above FASB pronouncements is not expected to have a material impact on the University's financial statements.

(o) Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation, including a reclassification of certain actuarial adjustments in the consolidated statement of cash flows from operating activities to financing activities.

(p) Subsequent Events

The University has performed an evaluation of subsequent events through October 13, 2010, which is the date the financial statements were issued.

(2) The University of Chicago Medical Center

(a) Organization

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

(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) Basis of Presentation

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the AICPA *Audit and Accounting Guide for Health Care Organizations*. For purposes of presentation of the Medical Center financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for uncollectible Medical Center's patient accounts receivable of

(Continued)

(In thousands of dollars)

$35,461 in fiscal year 2010 and $52,140 in fiscal year 2009 has been reclassified as a reduction of patient care revenue, (2) investment gains (losses) of $58,067 in fiscal year 2010 and $(192,223) in fiscal year 2009 not used for operations have been reclassified as a nonoperating change in unrestricted net assets, 3) cash contributions in excess of pension expense of $18,256 in fiscal year 2010 and pension expense in excess of cash contributions of $(2,931) in fiscal year 2009 have been reclassified from (to) benefits expense, and 4) transfers to the University of $23,000 in fiscal year 2010 and 2009 have been reclassified as a reduction of other income.

(3) Investments

Investments at June 30, 2010 and 2009 comprise the following:

		2010		2009
	University	Medical Center	Consolidated	Consolidated
Cash equivalents	$ 554,240	50,694	604,934	713,592
Domestic public equities	378,355	115,169	493,524	395,008
International public equities	374,306	54,462	428,768	288,829
Private equity	963,435	97,570	1,061,005	918,160
Real assets	1,022,667	84,838	1,107,505	956,918
Absolute return	1,513,608	137,397	1,651,005	1,590,856
Fixed income	542,028	291,447	833,475	570,212
Funds held in trust (primarily cash equivalents and bonds)	302,543	—	302,543	294,283
Total	$ 5,651,182	831,577	6,482,759	5,727,858

(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

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 Treasury money market accounts.

Domestic and international 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 comingled 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.

Investments in private equity and real assets are in the form of limited partnership interests which typically invest in private securities for which there is not readily determinable market value. In these cases, market value is determined by external managers based on a combination of cost, discounted cash flow analysis, industry comparables and outside appraisals. Where private equity and real assets 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 draw down private equity style partnerships whose managers have the authority to invest 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 which 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 which hold illiquid investments designate them in special side pockets, which are subject to special restrictions on redemption.

Fixed income investments consist of actively traded Treasuries and bond mutual funds which hold securities, the majority of which have maturities greater than one year. These are valued based on quoted market prices in active markets.

The University believes that the carrying amount of its investments is a reasonable estimate of fair value as of June 30, 2010 and 2009. 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 of Financial Instruments

Effective July 1, 2008, the University adopted the provisions of the FASB official pronouncement on *Fair Value Measurements* for financial instruments. The pronouncement defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value.

Fair value is defined as the price that the University would receive upon selling an investment in an orderly transaction between market participants.

The 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:

(In thousands of dollars)

- 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.

To coincide with the adoption of the FASB *Fair Value Measurements* pronouncement, the University also adopted the FASB update for *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which permits, as a practical expedient, the University to measure the fair value of an investment that is within the scope of the update on the basis of the net asset value per share of the investment or its equivalent determined as of the University's fiscal year-end. Under this approach, certain attributes of the investment such as restrictions on redemption and transaction prices from principal-to-principal or brokered transactions are not considered in measuring the fair value of an investment.

Following is a summary of the inputs used as of June 30, 2010 and 2009 in valuing the University's investments carried at fair value:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2010 Consolidated total
Assets:				
Cash equivalents	$ 604,934	—	—	604,934
Domestic public equities	87,000	127,974	278,550	493,524
International public equities	239,814	59,989	128,965	428,768
Private equity	—	—	1,061,005	1,061,005
Real assets	7,252	—	1,100,253	1,107,505
Absolute return	4,209	161,728	1,485,068	1,651,005
Fixed income	547,240	92,132	194,103	833,475
Funds held in trust	300,543	—	2,000	302,543
Total assets at fair value as of June 30, 2010	$ 1,790,992	441,823	4,249,944	6,482,759

(In thousands of dollars)

		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2009 Consolidated total
Assets:					
Cash equivalents	$	713,592	—	—	713,592
Domestic public equities		98,600	26,127	270,281	395,008
International public equities		70,055	121,302	97,472	288,829
Private equity		—	—	918,160	918,160
Real assets		6,441	—	950,477	956,918
Absolute return		5,235	497	1,585,124	1,590,856
Fixed income		335,940	75,838	158,434	570,212
Funds held in trust		292,283	—	2,000	294,283
Total assets at fair value as of June 30, 2009	$	1,522,146	223,764	3,981,948	5,727,858

Changes to the reported amounts of investments measured at fair value using unobservable inputs (Level 3) for the years ended June 30, 2010 and 2009 are as follows:

		Equities and fixed income	Alternative investments			2010 Consolidated total
			Private equity	Real assets	Absolute return	
Balance at June 30, 2009	$	526,187	918,160	952,477	1,585,124	3,981,948
Total net realized gains or losses		20,811	72,652	33,786	17,619	144,868
Total net unrealized gains or losses		110,275	(9,671)	(56,246)	257,483	301,841
Purchases, issuances, and settlements		2,844	137,536	212,752	91,062	444,194
Proceeds from sales, redemptions, and distributions		(125)	(57,672)	(41,326)	(328,855)	(427,978)
Transfer in (out) of Level III		(58,374)	—	810	(137,365)	(194,929)
Balance at June 30, 2010	$	601,618	1,061,005	1,102,253	1,485,068	4,249,944

(In thousands of dollars)

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

A summary of the University's investment returns for the years ended June 30, 2010 and 2009 is presented as follows:

	2010 University	2010 Medical Center	2010 Consolidated	2009 Consolidated
Investment return:				
Interest and dividends	$ 53,858	13,342	67,200	41,370
Net realized and unrealized gains and (losses)	631,378	47,099	678,477	(1,407,508)
Investment return	$ 685,236	60,441	745,677	(1,366,138)

Investment returns are reported in the accompanying consolidated statements of activities as endowment payout, earning 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, 2010, the University had unfunded commitments of $1,136,860, which are likely to be called through 2015. Details of these commitments are as follows:

	Unfunded commitments
Public equity	$ 12,353
Private equity	389,491
Real assets	610,488
Absolute return	124,528
Total	$ 1,136,860

(Continued)

(In thousands of dollars)

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 in Place at June 30, 2010
Cash	N/A	Daily	None	None
Equity investments:				
Separate accounts	N/A	Daily	None	None
Commingled funds	N/A	Daily to monthly with notice peroids of 1 to 14 days	None	None
Partnerships	N/A	Quarter to annually with notice peroids of 30 to 180 days	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital in side pockets with no redemptions permitted	None
Private equity	1 to 19 years	Redemptions not permitted	N/A	N/A
Real assets	1 to 18 years	Redemptions not permitted	N/A	N/A
Absolute return:				
Partnerships	N/A	Quarterly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 investments have a portion of capital in side pockets with no redemptions permitted	Approximately $35 million of investments are in gated or liquidating funds
Drawdown partnerships	1 to 9 years	Redemptions not permitted	N/A	N/A
Fixed income:				
Separate accounts	N/A	Daily	None	None
Commingled funds	N/A	Daily	None	None
Partnerships	N/A	Quarterly with notice periods of 90 days	Only one-third capital available in any 12-month period	None
Funds held in trust	N/A	Daily	None	None

(In thousands of dollars)

(4) Endowments

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

(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, 2010:

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investment return:				
Endowment yield (interest and dividends)	$ 16,214	35,168	652	52,034
Net appreciation (realized and unrealized) on investments	188,361	434,722	9,397	632,480
Total investment return	204,575	469,890	10,049	684,514
Endowment payout	(123,114)	(188,614)	(3,861)	(315,589)
Net investment return	81,461	281,276	6,188	368,925
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	253	81,469	81,722
Transfers to create funds functioning as endowment	44,949	—	—	44,949
Withdrawal of working capital funds	(100,000)	—	—	(100,000)
Other changes	(13,968)	(28,463)	15,918	(26,513)
Total other changes in endowment investments	(69,019)	(28,210)	97,387	158
Net change in endowment investments	12,442	253,066	103,575	369,083
Endowment investments at:				
Beginning of year	1,557,945	1,891,030	1,086,659	4,535,634
End of year	$ 1,570,387	2,144,096	1,190,234	4,904,717

(In thousands of dollars)

	2010				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2009**
Net assets by type of fund:					
Donor-restricted “true” endowment	$ (25,384)	2,144,096	1,190,234	3,308,946	2,940,166
Board-designated “funds functioning as endowment”	1,595,771	—	—	1,595,771	1,595,468
Total – as above	$ 1,570,387	2,144,096	1,190,234	4,904,717	4,535,634

(In thousands of dollars)

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, 2009:

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

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

(Continued)

(In thousands of dollars)

(b) Medical Center Endowment

Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2010:

	2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Investment return:				
Endowment yield (interest and dividends)	$ 10,761	2,581	—	13,342
Net appreciation (realized and unrealized) on investments	71,477	7,376	—	78,853
Total investment return	82,238	9,957	—	92,195
Endowment payout	(30,976)	(3,461)	—	(34,437)
Net investment return	51,262	6,496	—	57,758
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	21	21
Transfers to create funds functioning as endowment	117,000	—	—	117,000
Other changes	(27)	6	(6)	(27)
Total other changes in endowment investments	116,973	6	15	116,994
Net change in endowment investments	168,235	6,502	15	174,752
Endowment investments at:				
Beginning of year	527,831	52,342	6,046	586,219
End of year	$ 696,066	58,844	6,061	760,971

(In thousands of dollars)

	2010				2009
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2009**
Net assets by type of fund:					
Donor-restricted "true" endowment	$ (5)	58,844	6,061	64,900	58,336
Board-designated "funds functioning as endowment"	696,071	—	—	696,071	527,883
Total – as above	$ 696,066	58,844	6,061	760,971	586,219

Included in board-designated "funds functioning as endowment" are $298,456 of net assets that are separately invested by the Medical Center.

(In thousands of dollars)

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, 2009:

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

(In thousands of dollars)

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

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

(c) Interpretation of Relevant Law

Effective June 30, 2009, Illinois passed the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA). 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 classifies as permanently restricted net assets the historical value of donor-restricted “true” endowment funds, which includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted “true” endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

The financial statement effect for the adoption of FSP 117-1 is the reclassification of appreciated value of donor-restricted “true” endowment funds in excess of the fund’s historical value from unrestricted to temporarily restricted net assets.

(In thousands of dollars)

(e) Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board of Trustees with the objective of a 5.0% average payout over time, was 5.25% and 5.00% for the fiscal years ended June 30, 2010 and 2009, respectively. Periodically, the University Board of Trustees will adjust the endowment payout to fund specifically approved strategic initiatives.

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

(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, 2010 and 2009, amounted to $25,384 and $5 and $37,523 and $52 for the University and Medical Center, respectively.

(5) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2010 and 2009 are shown as follows:

	2010			2009
	University	Medical Center	Consolidated	Consolidated
Patients	$ 74,956	156,538	231,494	227,792
Students:				
Loans	61,651	—	61,651	86,287
Tuition and fees	3,164	—	3,164	2,974
U.S. government	33,197	—	33,197	29,994
All other	68,420	—	68,420	66,404
Subtotal	241,388	156,538	397,926	413,451
Less allowance for doubtful accounts (primarily patient receivables)	(65,624)	(29,564)	(95,188)	(93,306)
Total	$ 175,764	126,974	302,738	320,145

(In thousands of dollars)

(6) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2010 and 2009 are shown as follows:

	2010			2009
	University	**Medical Center**	**Consolidated**	**Consolidated**
Land	$ 63,510	36,008	99,518	99,518
Buildings	2,455,233	638,151	3,093,384	2,401,985
Equipment	410,727	425,705	836,432	778,379
Books	253,643	—	253,643	237,928
Construction in progress	215,519	221,108	436,627	793,946
Subtotal	3,398,632	1,320,972	4,719,604	4,311,756
Less accumulated depreciation	(1,150,430)	(614,505)	(1,764,935)	(1,603,830)
Total	$ 2,248,202	706,467	2,954,669	2,707,926

(Continued)

(In thousands of dollars)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2010 and 2009 are shown as follows:

	Fiscal year maturity	Interest rate	2010	2009
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA)				
Series 1993	2014	6.0%	$ 1,850	2,250
Series 2001A	2042	5.3	2,860	2,860
Series 2003A	2034	4.0 – 5.3	173,475	177,905
Illinois Finance Authority (IFA):				
Series 2004A	2035	5.0	94,600	96,490
Series 2004C	2040	3.8	78,241	78,356
Series 2007	2047	5.0	244,030	244,030
Series 2008	2039	3.2	119,477	121,841
Series 2008B	2039	5.6	500,000	500,000
Illinois Health Facilities Authority (IHFA) – Series 1985	2021	5.5	61,145	61,265
Taxable Bonds – Series 2010	2031	5.3	300,000	—
Unamortized premium			10,625	11,235
Total fixed rate			1,586,303	1,296,232
Variable rate:				
Illinois Student Assistance Commission (ISAC)	2011	0.2 – 0.5	15,639	39,997
IEFA:				
Pooled financing program	—	—	—	2,268
Series 1998B	2026	3.4	90,090	90,090
Series 2001B-1	2037	0.5	60,000	60,000
Series 2001B-2	2037	0.5	40,000	40,000
Series 2001B-3	2037	0.5	72,265	72,265
Series 2003B	2034	0.2	45,009	46,061
IFA – Series 2004B	2035	0.2	93,798	95,954
Taxable commercial paper ($200,000 available)	2011	0.3	100,000	100,000
Bank lines of credit ($250,000 available)	2011	0.4	21,000	195,500
Total variable rate			537,801	742,135
Total University			2,124,104	2,038,367
Medical Center:				
Fixed rate:				
IHFA:				
Series 2001	2024	5.1	29,040	30,440
Series 2001	2032	5.0	28,100	28,100
Series 2001	2037	5.1	24,065	24,065
Series 2003	2015	4.0 – 5.0	33,920	39,535
IFA:				
Series 2009C	2037	5.3 – 5.5	85,000	—
Series 2009A and B	2027	3.0 – 5.0	154,830	—
Unamortized premium			9,049	1,376
Total fixed rate			364,004	123,516
Variable rate:				
IEFA pooled financing program	2038	0.4	86,803	88,488
IFA:				
Series 2009A-1 and 2	—	—	—	75,000
Series 2009B-1 and 2	—	—	—	90,000
Series 2009D-1 and 2	2044	3.1	70,000	—
Series 2009E-1 and 2	2044	3.1	70,000	—
Bank line of credit ($15,000 available)	2011	—	—	—
Total variable rate			226,803	253,488
Total Medical Center			590,807	377,004
Total notes and bonds payable			$ 2,714,911	2,415,371

(a) Fiscal 2010 Transactions

During fiscal year 2010, the University issued $300,000 in taxable fixed rate bonds. Proceeds from the Series 2010 bonds are being used to fund capital expenditures not qualifying for tax-exempt debt financing and provide longer-term financing for capital projects funded in recent years using short-term borrowing facilities.

During fiscal year 2010, the Medical Center issued $154,830 in fixed rate revenue bonds through the IFA, which were used to convert the IFA Series 2009A-1 and 2 and 2009B-1 and 2 from variable to fixed rate bonds. Also during fiscal year 2010, the Medical Center issued $85,000 of fixed rate revenue bonds and $140,000 of variable rate demand bonds, proceeds from which are being used to finance the construction of a new hospital facility.

(b) Defeased Debt

As of June 30, 2010 and 2009, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was $75,115 and $196,980, respectively.

(c) Interest Rate Swaps

In order to reduce exposure to adjustable interest rates on variable rate debt, the University and Medical Center have entered into debt-related interest rate swap agreements. These agreements have the effect of fixing the rate of interest for the variable rate debt. The fair value of these swap agreements are the estimated amount that the University and Medical Center would have to pay or receive to terminate the agreements as of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. At June 30, 2010 and 2009, the fair value of the interest rate swap agreements was an accrued liability of $33,122 and $22,069 and $61,853 and $32,447 for the University and Medical Center, respectively. Changes in the fair value of the interest rate swap agreements of $(40,458) and $(31,695) during fiscal 2010 and 2009, respectively, are included in unrestricted nonoperating other – net in the accompanying consolidated statement of activities. These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2011 through 2015 are approximately $14,541; $15,204; $15,888; $44,014; and $33,669, respectively.

Principal payments required in each of the five years ending June 30, 2011 through 2015 for the Medical Center notes and bonds are approximately $8,825; $9,340; $9,810; $10,315; and $10,035, respectively.

(e) Fair Value

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2010 and 2009, based on quoted market prices for the same or similar issues.

(f) Collateral

The University's June 30, 2010 notes and bonds payable are secured by certain physical properties with a carrying value of approximately $225 and $7,889 of assets held by trustees for debt service. ISAC bonds payable are fully collateralized by student loans receivable that are fully guaranteed by the federal government.

Each of the Medical Center IHFA bond series is collateralized by unrestricted receivables and subject to certain restrictions. The Medical Center IEFA and IFA bonds are guaranteed by bank letters of credit. In addition, the Medical Center IHFA Series 2001 and 2003 bonds are guaranteed by a municipal bond insurance policy.

(g) Remarketing

Included in the University and Medical Center's notes and bonds payable are $537,801 and $226,803, respectively, of variable rate notes and bonds maturing through fiscal year 2044. In the event the University and Medical Center's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University and Medical Center have standby bond purchase agreements totaling $300,000 and $226,803, respectively, which support variable rate debt in the event of a failed remarketing.

In addition, the University has a standby bond purchase agreement of $119,477 in support of its IFA Series 2008 variable rate bonds, which, through an interest rate swap agreement, carry a synthetically fixed interest rate.

(In thousands of dollars)

(8) Pledges

Pledges receivable at June 30, 2010 and 2009 are shown as follows:

		2010			2009
		University	Medical Center	Consolidated	Consolidated
Unconditional promises expected to be collected in:					
Less than one year	$	99,451	3,902	103,353	111,991
One year to five years		106,390	6,113	112,503	162,997
More than five years		247,825	669	248,494	233,090
		453,666	10,684	464,350	508,078
Less unamortized discount and allowance for uncollectible pledges		(76,417)	(770)	(77,187)	(83,227)
Total	$	377,249	9,914	387,163	424,851

The University's five largest pledges comprise 96% 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, 2010, the University has received $286,908 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, completion of construction projects, or future income from pledged investments. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(9) Self-Insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the years ended June 30, 2010 and 2009 was $10,000 per claim and unlimited in annual aggregate. Claims in excess of $10,000 are subject to an additional self-insurance retention limited to $15,000 per claim and $15,000 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

Under the medical malpractice self-insurance program, the University 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.

(In thousands of dollars)

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately $53,700 higher than the amount recorded in the consolidated financial statements at June 30, 2010. The interest rate assumed in determining the present value was 5.0%. The University recorded unrestricted nonoperating actuarial income (expense) adjustments of $30,351 and $(56,200) during the years ended June 30, 2010 and 2009, 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, 2010 and 2009 is presented as follows:

	2010			2009
	University	**Medical Center**	**Consolidated**	**Consolidated**
Medical malpractice	$ 240,492	—	240,492	215,631
Workers' compensation	3,732	7,362	11,094	10,264
Others	2,622	—	2,622	2,574
Total	$ 246,846	7,362	254,208	228,469

(10) Pension Plans and Other Postretirement Benefits

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

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

(In thousands of dollars)

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

		Defined benefit pension plan		**Other postretirement benefit plans**	
		2010	**2009**	**2010**	**2009**
Change in benefit obligation:					
Benefit obligation at beginning of year	$	444,204	408,416	168,085	143,948
Service cost		20,217	23,470	6,852	5,841
Interest cost		29,325	28,797	11,289	9,913
Benefits paid		(29,764)	(27,739)	(6,918)	(8,165)
Plan amendments		4,572	2,078	—	—
Actuarial loss, net		123,910	9,182	17,549	16,548
Benefit obligation at end of year		592,464	444,204	196,857	168,085
Change in fair value of plan assets:					
Fair value of plan assets at beginning of year		225,530	319,764	13,389	20,429
Actual return on plan assets		27,813	(86,540)	1,518	(948)
Employer contributions		62,228	20,045	1,151	2,073
Benefits paid		(29,764)	(27,739)	(6,918)	(8,165)
Fair value of plan assets at end of year		285,807	225,530	9,140	13,389
Funded status – liability	$	(306,657)	(218,674)	(187,717)	(154,696)

The accumulated benefit obligation for the defined benefit pension plan was $499,986 and $374,195 at June 30, 2010 and 2009, respectively.

(In thousands of dollars)

(a) Components of Net Periodic Benefit Cost

		Defined benefit pension plan		Other postretirement benefit plans	
		2010	2009	2010	2009
Service cost	$	20,217	23,470	6,851	5,841
Interest cost		29,325	28,797	11,289	9,913
Expected return on plan assets		(28,351)	(27,492)	(706)	(1,180)
Amortization of prior service cost (benefit)		716	1,133	(2,105)	(2,298)
Amortization of transition obligation		—	—	1,370	1,370
Amortization of actuarial loss		3,810	—	4,734	3,912
Net periodic benefit cost	$	25,717	25,908	21,433	17,558
Amounts included in the consolidated statements of activities:					
University	$	(5,397)	15,886	21,433	17,558
Medical Center		31,114	10,022	—	—
Total	$	25,717	25,908	21,433	17,558

(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 plan		Other postretirement benefit plans	
	2010	2009	2010	2009
Discount rate	5.5%	6.8%	5.5%	6.8%
Expected return on plan assets	7.6	7.6	6.5	6.5
Rate of compensation increase	3.5	3.5	3.6	4.1
Healthcare cost trend rates:				
Next two fiscal years	—	—	8.0% – 8.2%	7.5% – 8.0%
Next seven fiscal years	—	—	6.3 – 7.7	5.0 – 7.5
Thereafter	—	—	4.5 – 6.2	5.0

The expected return on plan assets assumptions for both the defined benefit pension plan and the other postretirement benefit plans is based on historical returns for similar investment portfolios.

(In thousands of dollars)

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:

		2010	2009
Effect on total service cost and interest cost:			
One-percentage-point increase	$	3,003	2,422
One-percentage-point decrease		(2,342)	(1,900)
Effect on year-end postretirement benefit obligation:			
One-percentage-point increase	$	28,931	22,874
One-percentage-point decrease		23,205	(18,520)

(c) Plan Assets

Weighted average asset allocations by asset category are as follows:

	Defined benefit pension plan		Other postretirement benefit plans	
	2010	2009	2010	2009
Domestic public equities	26%	40%	58%	49%
International public equities	13	11	—	—
Fixed income	61	49	42	51
	100%	100%	100%	100%

As of June 30, 2010 and 2009, substantially all of the plan assets for the defined benefit pension plan and other postretirement benefit plans are managed through the Teachers Insurance and Annuity Association and College Retirement Equities Fund and are valued based on quoted market prices in active markets for identical investments (Level 1). The target asset allocation of 40% public equities and 60% 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 have a target asset allocation of 50% public equities and 50% fixed income securities. Typical health plans have high and variable cash needs. The asset allocation targets reflect the assumption that cash flow out of plan assets is not expected in the short term.

(d) Contributions

The University expects to make no contribution to its postretirement healthcare plan and, along with the Medical Center, expects to make a $85,400 contribution to the defined benefit pension plan in fiscal year 2011.

(Continued)

(In thousands of dollars)

(e) Estimated Future Benefits Payments

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

Fiscal year		Defined benefit pension plan	Other postretirement benefit plans
2011	$	27,679	6,401
2012		29,377	6,550
2013		31,149	8,923
2014		32,816	9,361
2015		35,449	9,810
2016 – 2020		212,754	57,459

(f) Prescription Drug Act

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement plan currently meets Medicare's criteria for the tax-free subsidy because the University's plan provides for a higher level of reimbursement than Medicare. The University has recognized the effect of this subsidy in the calculation of its postretirement benefit obligation, the impact of which is to reduce the benefit obligation by $50,542 and $39,282 at June 30, 2010 and 2009, respectively.

(g) Curtailed Pension Plan

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2010 and 2009, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of $19,903 and $18,939 at June 30, 2010 and 2009, respectively.

(h) Defined Contribution Pension Plan

Defined contribution pension plan costs included in the consolidated statements of activities amounted to $41,060 in fiscal year 2010 and $39,004 in fiscal year 2009 for the University and $10,632 in fiscal year 2010 and $9,400 in fiscal year 2009 for the Medical Center.

(In thousands of dollars)

(11) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2010 and 2009 are shown as follows:

		2010	2009
University:			
Academic and research:			
Instruction	$	725,867	722,405
Research		287,144	263,012
Auxiliary enterprises		163,908	159,675
Library		18,126	16,690
Student services		47,827	40,994
Operation and maintenance of physical plant		88,127	95,994
Depreciation		107,458	87,103
Interest on notes and bonds		25,618	30,032
Total academic and research		1,464,075	1,415,905
Administration:			
Institutional support		120,226	99,074
Informational services		46,265	47,949
Development		54,108	50,021
Operation and maintenance of physical plant		7,221	5,350
Depreciation		24,288	15,807
Interest on notes and bonds		9,651	5,588
Total administration		261,759	223,789
Total University		1,725,834	1,639,694
Medical Center:			
Healthcare service		957,618	927,103
General and administrative		77,064	104,068
		1,034,682	1,031,171
Total	$	2,760,516	2,670,865

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.

(Continued)

(12) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's board of trustees are faculty members or officers of the University. Program-related revenue for the years ended December 31, 2009 and 2008 was $116,220 and $105,795, respectively. Unrestricted net assets at December 31, 2009 and 2008 were $20,521 and $18,873, 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.

Beginning in fiscal year 2008, the University, as a member of Fermi Research Alliance, LLC (FRA), also operates Fermi National Accelerator Laboratory (Fermilab) on behalf of DOE. The Fermilab contract between DOE and FRA provides for the payment of a fixed management allowance and an additional performance fee. The University shares the performance fee with Universities Research Association, the other member of FRA, and with a subcontractor that assists FRA with the management and operation of Fermilab.

The expenditures under the respective contracts and the related reimbursements of $642,671 for ANL and $403,845 for Fermilab in fiscal year 2010, and $534,664 for ANL and $369,515 for Fermilab in fiscal year 2009, are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

(13) Contingencies

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

(14) Subsequent Event

In August 2010, the Medical Center sold its four chronic dialysis units with annual revenues of approximately $25,000 to an unrelated public company for approximately $28,000.

Schedule 1

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheet

June 30, 2010

(In thousands of dollars)

Assets		**University** University Excluding BSD	**University** BSD	**University** Total	Medical Center	2010 Consolidated
Cash and cash equivalents	$	(131,206)	147,451	16,245	107,513	123,758
Notes and accounts receivable		130,556	45,208	175,764	126,974	302,738
Prepaid expenses and other assets		12,507	44,285	56,792	61,853	118,645
Pledges receivable		377,249	—	377,249	9,914	387,163
Internal loan receivable (payable)		430,182	(430,182)	—	—	—
Investments		4,554,574	1,096,608	5,651,182	831,577	6,482,759
Land, buildings, equipment, and books		1,664,249	583,953	2,248,202	706,467	2,954,669
Total assets	$	7,038,111	1,487,323	8,525,434	1,844,298	10,369,732
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	$	267,916	19,239	287,155	277,582	564,737
Deferred revenue		70,590	14,775	85,365	—	85,365
Assets held in custody for others		55,029	240	55,269	—	55,269
Self-insurance liability		6,354	240,492	246,846	7,362	254,208
Pension and other postretirement benefit obligations		494,374	—	494,374	19,903	514,277
Asset retirement obligation		57,168	—	57,168	8,052	65,220
Notes and bonds payable		2,124,104	—	2,124,104	590,807	2,714,911
Refundable U.S. government student loan funds		37,202	309	37,511	—	37,511
Total liabilities		3,112,737	275,055	3,387,792	903,706	4,291,498
Net assets:						
Unrestricted		688,184	497,355	1,185,539	857,113	2,042,652
Temporarily restricted		2,213,760	450,699	2,664,459	77,376	2,741,835
Permanently restricted		1,023,430	264,214	1,287,644	6,103	1,293,747
Total net assets		3,925,374	1,212,268	5,137,642	940,592	6,078,234
Total liabilities and net assets	$	7,038,111	1,487,323	8,525,434	1,844,298	10,369,732

The Biological Sciences Division (BSD) consists of the Pritzker School of Medicine, twenty-one clinical and basic science Departments, and thirteen interdisciplinary Committees that provide education, research, and patient care

See accompanying independent auditors' report.

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2010

(In thousands of dollars)

	University				
	University Excluding BSD	BSD	Total	Medical Center	2010 Consolidated
Changes in unrestricted net assets:					
Operating:					
Revenue:					
Tuition and fees – gross	$ 538,598	35,126	573,724	—	573,724
Less student aid	(219,089)	(36,951)	(256,040)	—	(256,040)
Tuition and fees – net	319,509	(1,825)	317,684	—	317,684
Government grants and contracts	154,582	239,812	394,394	—	394,394
Private gifts, grants, and contracts	83,956	52,762	136,718	1,105	137,823
Endowment payout	263,798	47,930	311,728	34,437	346,165
Earnings on other investments	1,824	—	1,824	—	1,824
Patient care	—	189,768	189,768	1,076,731	1,266,499
Auxiliaries	148,726	51,097	199,823	—	199,823
Other income	101,559	42,631	144,190	40,697	184,887
Net assets released from restrictions	45,060	24,103	69,163	—	69,163
Total operating revenue	1,119,014	646,278	1,765,292	1,152,970	2,918,262
Expenses:					
Compensation:					
Academic salaries	212,464	213,553	426,017	—	426,017
Staff salaries	288,616	137,877	426,493	373,569	800,062
Benefits	141,395	82,938	224,333	107,304	331,637
Total compensation	642,475	434,368	1,076,843	480,873	1,557,716
Other operating expenses:					
Utilities, alterations, and repairs	43,113	1,584	44,697	26,231	70,928
Depreciation	93,981	37,765	131,746	61,316	193,062
Interest	35,269	—	35,269	9,695	44,964
Supplies, services, and other	272,221	129,731	401,952	430,362	832,314
Insurance	3,257	32,070	35,327	26,205	61,532
Total other operating expenses	447,841	201,150	648,991	553,809	1,202,800
Total operating expenses	1,090,316	635,518	1,725,834	1,034,682	2,760,516
Excess of operating revenue over expenses	28,698	10,760	39,458	118,288	157,746

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2010

(In thousands of dollars)

		University				
		University Excluding BSD	**BSD**	**Total**	**Medical Center**	**2010 Consolidated**
Changes in unrestricted net assets:						
Nonoperating:						
Investment gains	$	69,843	19,431	89,274	16,042	105,316
Postretirement benefit changes other than net periodic benefit cost		(137,234)	—	(137,234)	(2,831)	(140,065)
Others, net		16,314	26,444	42,758	12,686	55,444
Change in unrestricted net assets from nonoperating activities		(51,077)	45,875	(5,202)	25,897	20,695
Increase (decrease) in unrestricted net assets		(22,379)	56,635	34,256	144,185	178,441
Changes in temporarily restricted net assets:						
Private gifts		60,007	632	60,639	6,779	67,418
Investment gains		249,087	23,269	272,356	9,962	282,318
Others, net		(53,619)	2,552	(51,067)	(42,455)	(93,522)
Net assets released from restrictions		(65,130)	(4,033)	(69,163)	—	(69,163)
Increase (decrease) in temporary restricted net assets		190,345	22,420	212,765	(25,714)	187,051
Changes in permanently restricted net assets:						
Private gifts		36,606	2,640	39,246	—	39,246
Endowment payout		3,534	327	3,861	—	3,861
Investment gains		5,656	537	6,193	—	6,193
Others, net		35,409	8,919	44,328	(20)	44,308
Increase (decrease) in permanently restricted net assets		81,205	12,423	93,628	(20)	93,608
Increase in net assets		249,171	91,478	340,649	118,451	459,100
Net assets at beginning of year		3,676,203	1,120,790	4,796,993	822,141	5,619,134
Net assets at end of year	$	3,925,374	1,212,268	5,137,642	940,592	6,078,234

See accompanying independent auditors' report.

Schedule 3

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Cash Flows

Year ended June 30, 2010

(In thousands of dollars)

	University	Medical Center	2010 Consolidated
Cash flows from operating activities:			
Increase (decrease) in net assets	$ 340,649	118,451	459,100
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Depreciation	131,746	61,316	193,062
Loss on disposal of land, buildings, equipment, and books	4,425	308	4,733
Net gain on investments	(631,377)	(82,238)	(713,615)
Private gifts and grants restricted for long-term investment	(99,885)	(6,712)	(106,597)
Other nonoperating changes	48,583	52,235	100,818
Postretirement benefit changes other than net periodic benefit cost	137,234	2,831	140,065
Changes in assets and liabilities:			
Notes and accounts receivable	(5,458)	(2,302)	(7,760)
Prepaid expenses and other assets	(2,033)	7,811	5,778
Accounts payable and other liabilities	26,839	(25,787)	1,052
Self-insurance liability	24,863	876	25,739
Total adjustments	(365,063)	8,338	(356,725)
Net cash provided by (used in) operating activities	(24,414)	126,789	102,375
Cash flows from investing activities:			
Purchase of investments	(2,256,803)	(265,108)	(2,521,911)
Proceeds from sale of investments	2,368,836	111,611	2,480,447
Acquisition of land, buildings, equipment, and books	(266,804)	(158,685)	(425,489)
Loans disbursed	(4,229)	—	(4,229)
Principal collected on loans	29,396	—	29,396
Net cash used in investing activities	(129,604)	(312,182)	(441,786)
Cash flows from financing activities:			
Proceeds from issuance of notes and bonds payable	300,000	388,053	688,053
Principal payments on notes and bonds payable	(214,263)	(172,424)	(386,687)
Proceeds from private gifts and grants restricted for long-term investment	84,739	—	84,739
Other nonoperating changes	(5,180)	(19,956)	(25,136)
Net cash provided by financing activities	165,296	195,673	360,969
Increase in cash and cash equivalents	11,278	10,280	21,558
Cash and cash equivalents at:			
Beginning of year	4,967	97,233	102,200
End of year	$ 16,245	107,513	123,758
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 71,221	6,577	77,798

See accompanying independent auditors’ report.