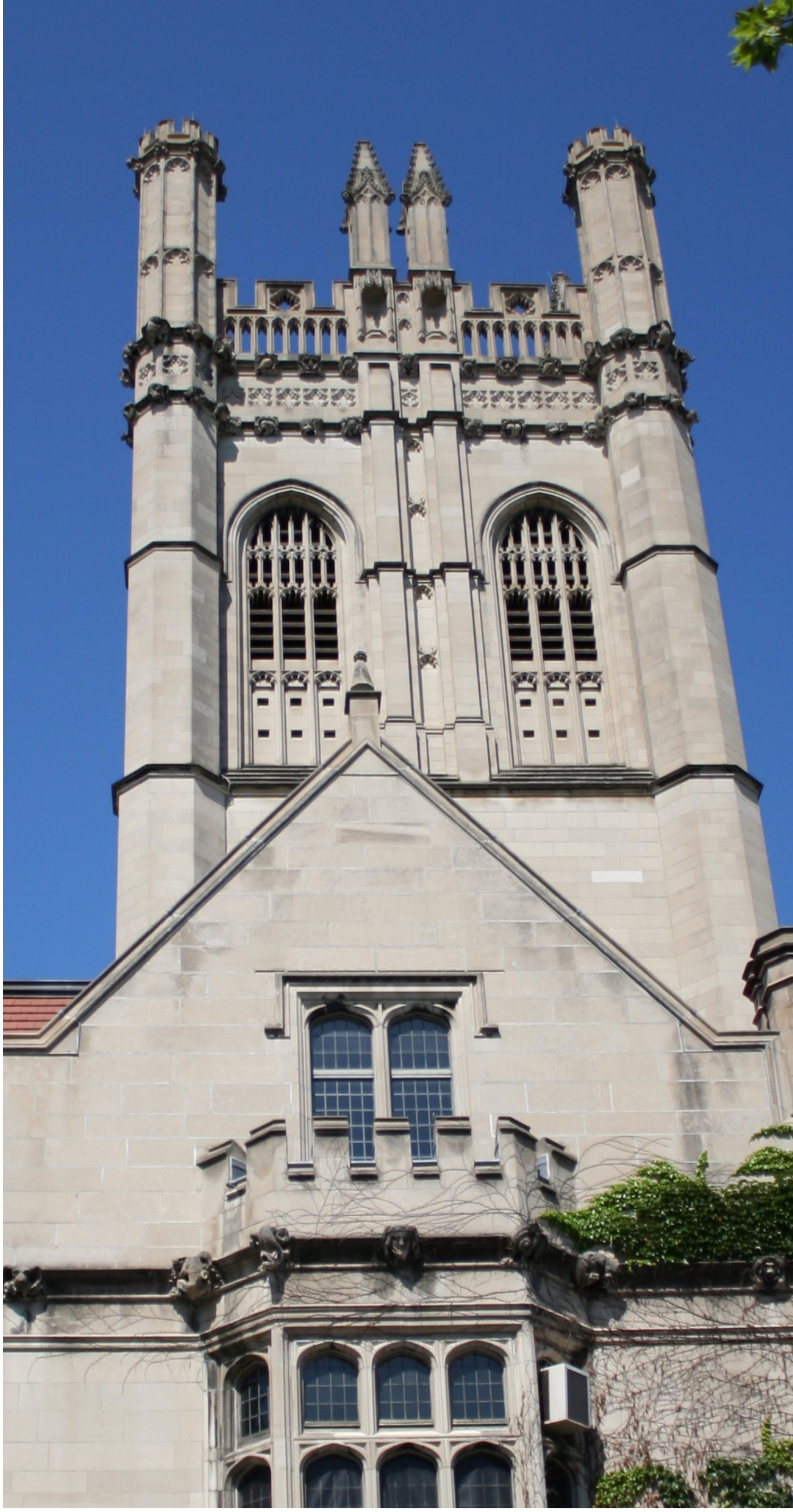

# The University of Chicago

**2019–2020**

*Financial Statements and Supplemental University Information*

**THE UNIVERSITY OF CHICAGO**

Years ended June 30, 2020 and 2019

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**THE UNIVERSITY OF CHICAGO**

Management's Responsibility for Consolidated Financial Statements

June 30, 2020 and 2019

The management of The University of Chicago (University) is responsible for the preparation and fair presentation of the consolidated financial statements and the related notes in accordance with U.S. generally accepted accounting principles. The preparation and fair presentation of the consolidated financial statements require management of the University to exercise professional judgment in making accounting estimates that are reasonable in the circumstances, as well as in selecting and applying appropriate accounting policies in accordance with U.S. generally accepted accounting principles.

The consolidated financial statements have been audited by the independent accounting firm KPMG LLP (KPMG). Management of the University is responsible for providing KPMG with i) access to all information of which management of the University is aware that is relevant to the preparation and fair presentation of the consolidated financial statements, such as records, documentation, and other matters, ii) additional information that KPMG may request from management of the University, and iii) unrestricted access to persons within the University. The University provided KPMG with certain representations during the audit that were complete and appropriate, including acknowledgement of management's responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to error or fraud.

The Trustees of the University, through its Audit Committee comprised of Trustees not employed by the University, are responsible for oversight of the financial reporting process and internal control over financial reporting and oversight of the establishment and maintenance by management of the University of programs and controls designed to prevent, deter, and detect fraud. Management of the University is responsible for ensuring that the University's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the University's consolidated financial statements.

Ivan Samstein
Vice President and Chief Financial Officer

John R. Kroll
Associate Vice President for Finance

KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

# Independent Auditors’ Report

The Board of Trustees
The University of Chicago:

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, 2020 and 2019, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## *Management’s Responsibility for the Consolidated 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 financial position of The University of Chicago as of June 30, 2020 and 2019, 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.

KPMG

### *Emphasis of Matter*

As discussed in note 1(n) to the consolidated financial statements, in 2020, the University adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

### *Other Matter*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplemental information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating supplemental 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.

KPMG LLP

Chicago, Illinois
November 6, 2020

**THE UNIVERSITY OF CHICAGO**

Consolidated Balance Sheets

June 30, 2020 and 2019

(In thousands of dollars)

| **Assets** | | **2020** | **2019** |
|---|---|---|---|
| Cash and cash equivalents | $ | 722,984 | 254,819 |
| Notes and accounts receivable, net | | 549,481 | 632,007 |
| Prepaid expenses and other assets | | 359,957 | 304,635 |
| Right-of-use assets – operating leases | | 215,381 | — |
| Pledges receivable, net | | 1,307,837 | 1,319,017 |
| Investments | | 9,240,536 | 9,337,282 |
| Land, buildings, equipment, and books, net | | 4,879,960 | 4,872,690 |
| Total assets | $ | 17,276,136 | 16,720,450 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | $ | 1,547,846 | 1,136,693 |
| Deferred revenue | | 205,957 | 138,961 |
| Assets held in custody for others | | 159,929 | 158,122 |
| Self-insurance liability | | 272,589 | 255,211 |
| Pension and other postretirement benefit obligations | | 349,112 | 272,671 |
| Asset retirement obligation | | 52,394 | 53,449 |
| Lease liability | | 256,377 | — |
| Notes and bonds payable | | 5,188,290 | 4,957,371 |
| Refundable U.S. government student loan funds | | 20,342 | 30,661 |
| Total liabilities | | 8,052,836 | 7,003,139 |
| Net assets: | | | |
| Without donor restrictions | | 2,512,399 | 3,000,527 |
| With donor restrictions | | 6,710,901 | 6,716,784 |
| Total net assets | | 9,223,300 | 9,717,311 |
| Total liabilities and net assets | $ | 17,276,136 | 16,720,450 |

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2020 and 2019

(In thousands of dollars)

| | | 2020 | 2019 |
|---|---|---|---|
| Changes in net assets without donor restrictions: | | | |
| Operating: | | | |
| Revenue: | | | |
| Tuition and fees, net of student aid | $ | 524,284 | 513,185 |
| Government grants and contracts | | 397,842 | 376,466 |
| Private gifts, grants, and contracts | | 241,725 | 313,809 |
| Endowment payout | | 474,275 | 474,519 |
| Patient service | | 2,349,590 | 2,413,120 |
| Auxiliaries | | 138,980 | 169,493 |
| Other income | | 697,025 | 481,832 |
| Net assets released from restrictions | | 149,876 | 155,114 |
| Total operating revenue | | 4,973,597 | 4,897,538 |
| Expenses: | | | |
| Compensation: | | | |
| Academic salaries | | 686,178 | 648,947 |
| Staff salaries | | 1,591,251 | 1,472,881 |
| Benefits | | 533,180 | 505,818 |
| Total compensation | | 2,810,609 | 2,627,646 |
| Other operating expenses: | | | |
| Utilities, alterations, and repairs | | 101,474 | 95,606 |
| Depreciation | | 347,447 | 341,175 |
| Interest | | 197,090 | 193,694 |
| Supplies, services, and other | | 1,702,405 | 1,633,217 |
| Total other operating expenses | | 2,348,416 | 2,263,692 |
| Total operating expenses | | 5,159,025 | 4,891,338 |
| Excess (deficiency) of operating revenue over expenses | $ | (185,428) | 6,200 |



(Continued)

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2020 and 2019

(In thousands of dollars)

| | | 2020 | 2019 |
|---|---|---|---|
| Changes in net assets without donor restrictions : | | | |
| Nonoperating: | | | |
| Investment gains (losses) | $ | (99,251) | 130 |
| Net periodic benefit cost other than service cost | | (4,613) | (14,722) |
| Retiree health plan change | | (22,390) | 120,384 |
| Other pension and postretirement benefit changes | | (47,624) | 26,421 |
| Changes in fair value of derivative instruments | | (128,903) | (45,628) |
| Other, net | | (10,366) | (24,041) |
| Net assets released from restrictions | | 10,447 | 39,089 |
| Nonoperating changes in net assets without donor restrictions | | (302,700) | 101,633 |
| Increase (decrease) in net assets without donor restrictions | | (488,128) | 107,833 |
| Changes in net assets with donor restrictions: | | | |
| Private gifts | | 297,420 | 359,287 |
| Recognition of future income from pledged assets | | — | 650,000 |
| Endowment payout | | 841 | 826 |
| Investment gains (losses) | | (151,376) | 48,667 |
| Other, net | | 7,555 | (2,854) |
| Net assets released from restrictions | | (160,323) | (194,203) |
| Increase (decrease) in net assets with donor restrictions | | (5,883) | 861,723 |
| Increase (decrease) in net assets | | (494,011) | 969,556 |
| Net assets at beginning of year | | 9,717,311 | 8,747,755 |
| Net assets at end of year | $ | 9,223,300 | 9,717,311 |

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands of dollars)

| | | 2020 | 2019 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Increase (decrease) in net assets | $ | (494,011) | 969,556 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | | |
| Depreciation | | 347,447 | 341,175 |
| Change in value of derivative instruments | | 128,903 | 45,628 |
| Loss on disposal of land, buildings, equipment, and books | | 10,626 | 13,144 |
| Net gain on investments | | (145,609) | (425,831) |
| (Gain) on debt refinancing | | (3,205) | — |
| Reduction in the carrying amount of the right-of-use assets - operating leases | | 20,986 | — |
| Private gifts and grants restricted for long-term investment | | (301,939) | (1,005,826) |
| Other nonoperating changes | | 171,998 | 222,395 |
| Pension and postretirement benefit changes | | 74,639 | (132,071) |
| Changes in operating assets and liabilities: | | | |
| Notes and accounts receivable | | 82,526 | (65,638) |
| Prepaid expenses and other assets | | (41,719) | (31,373) |
| Accounts payable and other liabilities | | 358,991 | 22,839 |
| Lease liability | | (16,977) | — |
| Self-insurance liability | | 17,378 | (5,787) |
| Total adjustments | | 704,045 | (1,021,345) |
| Net cash provided by (used in) operating activities | | 210,034 | (51,789) |
| Cash flows from investing activities: | | | |
| Purchase of investments | | (2,684,539) | (2,624,996) |
| Proceeds from sale of investments | | 2,927,884 | 2,759,857 |
| Proceeds from sale of property | | 1,695 | (309,950) |
| Acquisition of land, buildings, equipment, and books | | (354,490) | — |
| Net cash used in investing activities | | (109,450) | (175,089) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of debt instruments | | 3,155,398 | 2,202,189 |
| Principal payments on debt instruments | | (2,921,077) | (2,067,698) |
| Payment of finance lease liability | | (2,466) | — |
| Proceeds from private gifts and grants restricted for long-term investment | | 181,265 | 183,841 |
| Other nonoperating changes | | (45,539) | (116,832) |
| Net cash provided by financing activities | | 367,581 | 201,500 |
| Increase (decrease) in cash and cash equivalents | | 468,165 | (25,378) |
| Cash and cash equivalents at: | | | |
| Beginning of year | | 254,819 | 280,197 |
| End of year | $ | 722,984 | 254,819 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid for interest | $ | 199,825 | 195,431 |
| Change in construction payable | | 6,949 | (4,152) |
| Cash paid for amounts included in the measurement of lease liabilities: | | | |
| Operating cash flows from operating leases | | 27,861 | — |
| Operating cash flows from finance leases | | 1,191 | — |
| Financing cash flows from finance leases | | 2,466 | — |
| Right-of-use assets upon ASC 842 implementation: | | | |
| Finance leases | | 27,681 | — |
| Operating leases | | 236,367 | — |

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, the Medical Center, and the Marine Biological Laboratory (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 in accordance with U.S. generally accepted accounting principles (GAAP) 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 financial reporting purposes, however, the University follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions – 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 transactions, changes in this category of net assets include investment returns on "funds functioning as endowment" funds, actuarial adjustments to self-insurance liabilities, changes in postretirement benefit obligations, and certain types of philanthropic support.

  Such philanthropic support includes gifts without restrictions, 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 previously restricted gifts and grants for buildings and equipment that have been placed in service.

(In thousands of dollars)

- With Donor Restrictions – 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 in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service; endowment, annuity, and life income gifts; pledges; and 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 net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

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

  Net assets consisted of the following at June 30:

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Detail of net assets** | **Without donor restrictions** | **With donor restrictions** | **Total** | **Without donor restrictions** | **With donor restrictions** | **Total** |
| University: | | | | | | |
| Operating | $ (1,482,260) | 61,274 | (1,420,986) | (1,085,834) | 45,391 | (1,040,443) |
| Unamortized capital gifts for construction | 160,776 | 2,037 | 162,813 | 161,271 | 1,637 | 162,908 |
| Pledges receivable | — | 1,300,596 | 1,300,596 | — | 1,311,408 | 1,311,408 |
| Student loan funds | — | 29,140 | 29,140 | — | 27,454 | 27,454 |
| Endowment funds | 2,063,188 | 5,053,082 | 7,116,270 | 2,099,933 | 5,061,355 | 7,161,288 |
| Annuity and life income funds | — | 66,248 | 66,248 | — | 68,735 | 68,735 |
| Subtotal | 741,704 | 6,512,377 | 7,254,081 | 1,175,370 | 6,515,980 | 7,691,350 |
| Medical Center: | | | | | | |
| Operating | 772,451 | 15,688 | 788,139 | 812,811 | 14,525 | 827,336 |
| Pledges receivable | — | 2,698 | 2,698 | — | 2,872 | 2,872 |
| Endowment funds | 911,642 | 93,299 | 1,004,941 | 923,571 | 95,694 | 1,019,265 |
| Subtotal | 1,684,093 | 111,685 | 1,795,778 | 1,736,382 | 113,091 | 1,849,473 |
| Marine Biological Laboratory: | | | | | | |
| Operating | 77,773 | 6,895 | 84,668 | 80,067 | 7,248 | 87,315 |
| Pledges receivable | — | 4,543 | 4,543 | — | 4,737 | 4,737 |
| Annuity and life income funds | 361 | 619 | 980 | — | 1,121 | 1,121 |
| Endowment funds | 8,468 | 74,782 | 83,250 | 8,708 | 74,607 | 83,315 |
| Subtotal | 86,602 | 86,839 | 173,441 | 88,775 | 87,713 | 176,488 |
| Total | $ 2,512,399 | 6,710,901 | 9,223,300 | 3,000,527 | 6,716,784 | 9,717,311 |

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment which amounted to $2,983,298 and $3,032,212 as of June 30, 2020 and 2019, respectively. Included in the University's endowment without donor restrictions is a fund designated by the Board to be used to support the University's strategic initiatives which amounted to $186,271 and $205,750 as of June 30, 2020 and 2019, respectively.

### *(c) Operations*

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing net assets without donor restrictions except those items associated with long-term investment, actuarial adjustments to self-insurance liabilities, changes in postretirement benefit obligations other than service cost, changes in the fair value of derivative instruments, unamortized capital gifts associated with the acquisition or construction of long-lived assets placed in service, and other infrequent transactions. Operating results also include a reclassification associated with amortization of capital gifts placed in service, as described below.

### *(d) Capital Gifts to Acquire or Construct Long-Lived Assets*

Capital gifts to acquire or construct a long-lived asset are recorded as a donor restricted gift until the related asset is placed in service, at which time the capital gift is released from net assets with donor restrictions to net assets without donor restrictions and subsequently amortized into operations over the estimated useful life of the acquired or constructed asset. This amortization, which amounted to $10,942 in fiscal year 2020 and $10,929 in fiscal year 2019, is recorded as a reclassification between the non-operating and operating sections of the change in net assets without donor restrictions in the consolidated statements of activities.



(Continued)

(In thousands of dollars)

### *(e) Tuition and Fees, Net of Student Aid*

Student tuition and fees and related student aid are recorded during the year in which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Tuition and fees, less student aid, consist of the following:

| | | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | | Tuition and fees | Student aid | Net | Tuition and fees | Student aid | Net |
| University: | | | | | | | |
| Precollegiate | $ | 75,706 | (6,088) | 69,618 | 71,980 | (6,463) | 65,517 |
| College | | 384,084 | (152,466) | 231,618 | 361,217 | (150,335) | 210,882 |
| Graduate and professional schools | | 562,341 | (358,326) | 204,015 | 521,882 | (302,452) | 219,430 |
| Continuing professional education and other | | 22,241 | (3,993) | 18,248 | 21,696 | (5,233) | 16,463 |
| | | 1,044,372 | (520,873) | 523,499 | 976,775 | (464,483) | 512,292 |
| Marine Biological Laboratory | | 1,650 | (865) | 785 | 2,336 | (1,443) | 893 |
| Total | $ | 1,046,022 | (521,738) | 524,284 | 979,111 | (465,926) | 513,185 |

### *(f) 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 the 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, which are generally considered non-exchange transactions, is recognized when qualifying expenditures are incurred and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2020 and 2019 are $68,301 and $60,764, respectively, of private grant and contract receipts. Future funding from government and private grant and contract agreements is dependent on fiscal funding clauses and annual appropriations from granting agencies and organizations. Such conditional funding as of June 30, 2020 approximates the annual revenue reported on the consolidated statement of activities.

(In thousands of dollars)

Private gifts, grants, and contracts operating revenue for fiscal years 2020 and 2019 consist of the following:

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| | University | Medical Center | MBL | Consolidated | Consolidated |
| Private gifts: | | | | | |
| Unrestricted as to use | $ 24,122 | 137 | 1,006 | 25,265 | 22,800 |
| Restricted gifts whose restrictions were met during the fiscal year and reported as operating revenue | 97,102 | — | — | 97,102 | 163,662 |
| Private grants and contracts | 116,001 | — | 3,357 | 119,358 | 127,347 |
| Total | $ 237,225 | 137 | 4,363 | 241,725 | 313,809 |

### *(g) Patient Service*

The University recognizes net patient revenue in the period in which it satisfies the performance obligations under contracts by providing services to its patients, net of amounts to which it does not expect to be entitled. The University has agreements with governmental and other third-party payors that provide payments to the University based on prospectively determined rates, reimbursed cost, discounted charges, per diem payments, or other methods. The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Financial Assistance Program, and implicit price concessions provided primarily to uninsured patients. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience.

Net patient service revenue recognized in the consolidated statement of activities in net assets without donor restrictions by major payor sources are as follows:

| | 2020 | | | 2019 |
|---|---|---|---|---|
| | University | Medical Center | Consolidated | Consolidated |
| Medicare | $ 78,718 | 609,852 | 688,570 | 673,970 |
| Medicaid | 49,449 | 467,315 | 516,764 | 510,893 |
| Managed care | 142,202 | 962,371 | 1,104,573 | 1,200,190 |
| Patients and other | 29,264 | 10,419 | 39,683 | 28,067 |
| Net patient service revenue after provision for doubtful accounts | $ 299,633 | 2,049,957 | 2,349,590 | 2,413,120 |

### *(h) Auxiliaries*

Included in auxiliaries are revenues generated by the University Press, rental properties, parking facilities, residence halls and dining, and other student related services. Revenue from these activities is recorded during the year in which the related services are rendered, less an allowance for uncollectible amounts.

### *(i) Capitalized Interest*

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2020 and 2019, the amount of interest capitalized amounted to $1,114 and $1,562 for the University and $505 and $403 for the Medical Center, respectively.

### *(j) 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

(i) *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 and are treated as investing activity in the statement of cash flow. Cash equivalents are classified in Level 1 of the fair value hierarchy.

(ii) *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 and are classified in Level 1. The University's interests in alternative investment funds such as private debt, global public equity, 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, 2020 and 2019, the University had no plans to sell investments at amounts different from NAV. Funds measured at NAV as a practical expedient to estimate fair value are not classified in the fair value hierarchy.

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, 2020 and 2019 is included in note 5.

(iii) *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. The fair value of the pledge is estimated based on anticipated future cash receipts (net of a valuation adjustment), discounted using a risk-adjusted rate commensurate with the duration of the payment plan. These inputs to the fair value estimate are classified in Level 3 of the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the valuation adjustment is reassessed and adjusted if necessary.

(iv) *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 60 years for buildings and building improvements, 3 to 10 years for equipment, and 10 years for library books.

(v) *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 classified in Level 3 of the fair value hierarchy. At June 30, 2020 and 2019, the University had liabilities of $53,829 and $55,265 associated with its charitable remainder trust and gift annuity contracts and deferred revenue of $4,781 and $5,172 associated with its pooled income agreements, respectively. In subsequent periods, the discount rate is unchanged.

(vi) *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 classified in Level 2 of the fair value hierarchy.

(vii) *Assets Held in Custody for Others*

Assets held in custody for others consist 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 5.

(viii) *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.

(ix) *Pension and Other Postretirement Benefit Obligations*

The pension and other postretirement benefit obligations consider 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.

(x) *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.

(xi) *Leases*

The University and the Medical Center have entered into a variety of operating and finance leases for office space and equipment. The obligations associated with these leases have been recognized as a liability in the consolidated balance sheet based on future lease payments, discounted by the incremental borrowing rate or risk-free rate.

Lease terms may include options to extend or terminate certain leases. The value of a lease is reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

(xii) *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.



(Continued)

***(k) 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 2020 and 2019, and there are no uncertain tax positions considered to be material.

***(l) Use of Estimates***

The preparation of the consolidated financial statements in accordance with GAAP 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 dates, and the reporting of revenue, expenses, gains, and losses during the reporting periods. Actual results may differ from those estimates.

***(m) COVID-19 Pandemic and CARES Act Funding***

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. In response to the pandemic, various policies were implemented by federal, state and local governments, including the suspension of elective surgical procedures performed by health care facilities. As a result, patient volumes and the related revenues for most of the University's patient services were significantly impacted during the last quarter of fiscal year 2020.

In response to the pandemic, the University and Medical Center received $5,100 and $200,643, respectively, in general and targeted Provider Relief Fund distributions, as provided for under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Generally, provider relief distributions are not subject to repayment, provided the recipient is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. As such, these payments are recognized as operating revenue once there is reasonable assurance that the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on operating results through June 30, 2020, the University and the Medical Center have recognized revenue of $5,100 as government grants and contracts and $149,028 as other income, respectively, in the operating section of the change in net assets without donor restrictions in the consolidated statement of activities. As of June 30, 2020, the Medical Center has $51,615 of unrecognized provider relief distributions which has been classified as deferred revenue in the consolidated balance sheet. This funding is expected to be recognized as operating revenue in fiscal year 2021.

In addition, during the fourth quarter of fiscal year 2020, the University and Medical Center received $8,052 and $214,500, respectively, of accelerated Medicare payments under the Medicare Advanced Payment Program (APP) which allow eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. After 120 days of receipt, claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments for acute care hospitals and within 120 days for other healthcare providers. As of June 30, 2020, the University and Medical Center have recorded the APP payments as accounts payable and accrued liabilities in the consolidated balance sheet.

On September 19, 2020 and again on October 22, 2020, the Department of Health and Human Services provided Post-Payment Notice of Reporting Requirements for providers that received funding under the CARES Act which provides new guidance on healthcare related expenses attributable to COVID-19 and “lost revenue.” This guidance is considered a Type II subsequent event and is therefore not reflected as of June 30, 2020. The University estimates the new guidance will result in similar recognition of provider relief funding.

The CARES Act also provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. As a result, the University and the Medical Center have chosen to defer the employer portion of payroll taxes which as of June 30, 2020 amounted to $15,597 and $11,509, respectively. MBL did not defer the employer portion of payroll taxes.

The COVID-19 pandemic has negatively affected national, state, and local economies along with global financial markets and the higher education landscape in general. While the future impacts of the COVID-19 pandemic cannot be quantified at this time, the University continues to monitor its course and, if necessary, is prepared to take additional measures to protect the health and welfare of the University.

***(n) Recent Accounting Pronouncements***

Effective July 1, 2019, the University, the Medical Center, and MBL adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended. This guidance is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The University and the Medical Center elected the effective date transition method and the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

As of July 1, 2019, the University recognized (a) an operating lease liability of $182,738, which represents the present value of the remaining lease payments of approximately $233,645, discounted using the University’s weighted average incremental borrowing rate of 4.0%, and (b) an operating right-of-use asset of $182,738.

As of July 1, 2019, the Medical Center recognized (a) an operating lease liability of $53,043, which represents the present value of the remaining lease payments of $58,800, discounted using a weighted average risk-free rate of 2.1% and (b) an operating right-of-use asset of $53,043.

### *(o) Reclassifications*

Certain 2019 amounts have been reclassified to conform to the 2020 financial statement presentation.

### *(p) Subsequent Events*

In August 2020, UCMC issued fixed rate bonds in the amount of $47,270. The purpose of the Series 2020A bonds was to provide for the redemption of UCMC's Series 2009B bonds in full on August 15, 2020.

In September 2020, the University issued fixed rate bonds in the amount of $300,000, the purpose of which was to finance the construction and renovation of certain educational and research facilities.

## (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, the University of Chicago Medicine Care Network, the Ingalls Health System, 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) 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 $504,839 and $395,696 for the years ended June 30, 2020 and 2019, respectively.



(Continued)

### *(d) Basis of Presentation*

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with GAAP applicable to not-for-profit health care entities. For purposes of presentation of the Medical Center financial position and changes in net assets in the accompanying consolidated financial statements, several reclassifications have been made as follows: (1) investment gains used for operations of $57,472 in fiscal year 2020 and $51,073 in fiscal year 2019 have been recorded as operating revenue and (2) transfers to the University of $71,750 in fiscal years 2019 and 2020 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. MBL 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.

### *(b) Agreement 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.

(In thousands of dollars)

## (4) Financial Assets and Liquidity Resources

As of June 30, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| | University | Medical Center | MBL | Consolidated | Consolidated |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 181,983 | 538,725 | 2,276 | 722,984 | 254,819 |
| Notes and accounts receivable, net | 143,802 | 333,676 | 2,604 | 480,082 | 557,162 |
| Pledge payments available for operations | 131,094 | 1,177 | 1,653 | 133,924 | 144,789 |
| Short-term investments | 31,145 | — | 10,574 | 41,719 | 139,878 |
| Board designations: | | | | | |
| Funds functioning as endowment available for operations | 186,271 | — | — | 186,271 | 205,750 |
| Subsequent year's endowment payout | 403,607 | 63,948 | 4,566 | 472,121 | 452,674 |
| Total financial assets available within one year | 1,077,902 | 937,526 | 21,673 | 2,037,101 | 1,755,072 |
| Liquidity resources: | | | | | |
| Taxable commercial paper | 200,000 | — | — | 200,000 | 200,000 |
| Bank lines of credit | 500,000 | 200,000 | 2,775 | 702,775 | 502,775 |
| Total financial assets and liquidity resources available within one year | $ 1,777,902 | 1,137,526 | 24,448 | 2,939,876 | 2,457,847 |

The University's cash flows have seasonal variations during the year attributable to tuition billing, patient service reimbursement from the State of Illinois, and a concentration of contributions received at calendar and fiscal year-end.

To manage liquidity, the University maintains lines of credit with several banks and a taxable commercial paper program that are drawn upon as needed during the year to manage cash flows. As of June 30, 2020, amounts outstanding under these lines of credit facilities amounted to $192,969.

In addition, as of June 30, 2020 the University, Medical Center, and MBL had an additional $1,876,917, $911,642, and $8,468 in funds functioning as endowment, respectively, which is available for general expenditure with Board approval.

(In thousands of dollars)

## (5) Investments

Investments at June 30, 2020 and 2019 are comprised of the following:

| | | 2020 Consolidated | 2019 Consolidated |
|---|---|---|---|
| Cash equivalents | $ | 507,312 | 102,050 |
| Global public equities | | | |
| (primarily international) | | 3,120,005 | 3,047,025 |
| Private debt | | 419,852 | 429,521 |
| Private equity: | | | |
| U.S. venture capital | | 616,460 | 563,138 |
| U.S. corporate finance | | 345,570 | 336,967 |
| International | | 733,463 | 590,367 |
| Real estate | | 496,147 | 549,384 |
| Natural resources | | 435,258 | 562,576 |
| Absolute return: | | | |
| Equity-oriented | | 597,000 | 538,524 |
| Global macro/relative value | | 261,413 | 425,962 |
| Multistrategy | | 504,602 | 580,340 |
| Credit-oriented | | 332,391 | 464,144 |
| Protection-oriented | | 159,999 | 163,168 |
| Fixed income: | | | |
| U.S. treasuries | | 478,810 | 519,679 |
| Other fixed income | | 101,650 | 361,469 |
| Funds in trust | | 130,604 | 102,968 |
| Total | $ | 9,240,536 | 9,337,282 |

### *(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 U.S. money market accounts. Global public equity investments consist of separate accounts, exchange traded funds (ETFs), commingled funds with liquidity ranging from daily to annually, hedge funds investing primarily in long only public equities, and limited partnerships. ETFs and 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 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.

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

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, private debt, 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. Direct investments in preferred equity securities are initially held at cost. Valuation is re-evaluated when the company raises additional equity capital priced by a new outside investor.

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 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, 2020 and 2019. 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.

(In thousands of dollars)

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

Following is the fair value hierarchy of investments as of June 30, 2020:

| | Level 1 | Level 2 | 2020 Consolidated total |
|---|---|---|---|
| Cash equivalents | $ 507,312 | — | 507,312 |
| Global public equities (primarily international) | 800,372 | 19,000 | 819,372 |
| Private equity - U.S. venture capital | — | — | — |
| Real estate | 105,711 | — | 105,711 |
| Natural resources | — | — | — |
| Absolute return - Global macro/relative value | — | — | — |
| Fixed income: | | | |
| U.S. treasuries | 478,810 | — | 478,810 |
| Other fixed income (primarily credit funds) | 101,650 | — | 101,650 |
| Funds in trust | 99,093 | 14,603 | 113,696 |
| | $ 2,092,948 | 33,603 | 2,126,551 |
| Investments measured at net asset value | | | 7,113,985 |
| Total investments at fair value as of June 30, 2020 | | | $ 9,240,536 |

(In thousands of dollars)

Following is the fair value hierarchy of investments as of June 30, 2019:

| | Level 1 | Level 2 | 2019 Consolidated total |
|---|---|---|---|
| Cash equivalents | $ 102,050 | — | 102,050 |
| Global public equities (primarily international) | 962,755 | — | 962,755 |
| Private equity - U.S. venture capital | 5,302 | — | 5,302 |
| Real estate | 163,913 | — | 163,913 |
| Natural resources | 85,653 | — | 85,653 |
| Absolute return - Global macro/relative value | 78,347 | — | 78,347 |
| Fixed income: | | | |
| U.S. treasuries | 519,679 | — | 519,679 |
| Other fixed income (primarily credit funds) | 361,469 | — | 361,469 |
| Funds in trust | 69,248 | 16,239 | 85,487 |
| | $ 2,348,416 | 16,239 | 2,364,655 |
| Investments measured at net asset value | | | 6,972,627 |
| Total investments at fair value as of June 30, 2019 | | | $ 9,337,282 |

During fiscal years 2020 and 2019, there were no transfers between investment Levels 1 and 2.

A summary of investment return by entity, net of expenses, is presented below for the years ended June 30, 2020 and 2019:

| | 2020 | | | | |
|---|---|---|---|---|---|
| | University | Medical Center | MBL | Consolidated | 2019 Consolidated |
| Investment return: | | | | | |
| Interest and dividends | $ 65,755 | 12,430 | 695 | 78,880 | 100,519 |
| Net realized and unrealized gains | 129,693 | 14,505 | 1,411 | 145,609 | 433,382 |
| Investment return | $ 195,448 | 26,935 | 2,106 | 224,489 | 533,901 |

Investment return is reported in the accompanying consolidated statements of activities as investment gains (losses) net of endowment payout.

(In thousands of dollars)

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2020, the University had unfunded commitments of $1,405,579, which are likely to be called through 2031. Details of these commitments are as follows:

| | Unfunded commitments |
|---|---|
| Private equity | $ 587,702 |
| Real estate | 316,329 |
| Natural resources | 183,589 |
| Absolute return | 3,750 |
| Private debt | 314,209 |
| Total | $ 1,405,579 |

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, 2020 |
|---|---|---|---|---|
| **Cash** | N/A | Daily | None | None |
| **Global public equities:** | | | | |
| Commingled funds | N/A | Daily to triennial with notice periods of 2 to 180 days | Lock-up provisions for up to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted | $1.1 million |
| Partnerships | N/A | Monthly to triennial with notice periods of 7 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 | $20.1 million |

| | Remaining life | Redemption terms | Redemption restrictions and terms | Redemption restrictions or side pockets at June 30, 2020 |
|---|---|---|---|---|
| Separate accounts | N/A | Daily with notice periods of 1 to 90 days | None | None |
| **Private debt:** | | | | |
| Drawdown partnerships | 1 to 12 years | Redemptions not permitted | N/A | N/A |
| **Private equity:** | | | | |
| Drawdown partnerships | 1 to 32 years | Redemptions not permitted | N/A | N/A |
| Separate account | N/A | Daily with notice period of 5 days | None | None |
| Partnerships | N/A | Semi-annual to annual with notice period of 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 | $27.0 million |
| Direct investments | Indefinite | Redemptions permitted | N/A | $12.1 million |


(Continued)

| | **Remaining life** | **Redemption terms** | **Redemption restrictions and terms** | **Redemption restrictions or side pockets at June 30, 2020** |
|---|---|---|---|---|
| **Real estate:** Drawdown partnerships | 1 to 14 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 16 years | Redemptions not permitted | N/A | N/A |
| **Absolute return:** | | | | |
| Commingled funds | N/A | Monthly to triennial with notice periods of 1 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 | $0.9 million |
| Drawdown partnerships | 1 year | Redemptions not permitted | N/A | N/A |
| Partnerships | N/A | Quarterly to biennial with notice periods of 60 to 90 days | Lock-up provisions for up to 1 year, some investments have a portion of capital held in side pockets with no redemptions permitted | $163.7 million |
| **Fixed Income** | N/A | Daily | None | None |
| **Funds in Trust** | N/A | Daily | None | None |

(In thousands of dollars)

## (6) Endowments

The University's endowment consists of approximately 4,000 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" (FFE). 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.

The University, Medical Center, and MBL endowment each invest in an investment pool referred to as the Total Return Investment Pool (TRIP). As of June 30, 2020, 98%, 79%, and 100% of the University, Medical Center, and MBL endowments respectively, are invested in TRIP.

### *(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, 2020:

| | 2020 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Changes in the fair value of endowment investments: | | | |
| Investment return: | | | |
| Endowment yield (interest and dividends) | $ 18,349 | 47,405 | 65,754 |
| Net appreciation (realized and unrealized) on investments | 56,610 | 73,109 | 129,719 |
| Total investment return | 74,959 | 120,514 | 195,473 |
| Endowment payout | (147,531) | (271,270) | (418,801) |
| Investment return, net of payout | (72,572) | (150,756) | (223,328) |
| Other changes in endowment investments: | | | |
| Gifts and pledge payments received in cash | — | 127,817 | 127,817 |
| Transfers to create funds functioning as endowment | 36,718 | — | 36,718 |
| Other changes | (891) | 14,666 | 13,775 |
| Total other changes in endowment investments | 35,827 | 142,483 | 178,310 |
| Net change in endowment investments | (36,745) | (8,273) | (45,018) |
| Endowment investments at: | | | |
| Beginning of year | 2,099,933 | 5,061,355 | 7,161,288 |
| End of year | $ 2,063,188 | 5,053,082 | 7,116,270 |
| Investments by type of fund: | | | |
| Donor-restricted "true" endowment: | | | |
| Historical gift value | $ — | 2,301,420 | 2,301,420 |
| Appreciation | — | 2,751,662 | 2,751,662 |
| Board-designated "funds functioning as endowment" | 2,063,188 | — | 2,063,188 |
| Total – as above | $ 2,063,188 | 5,053,082 | 7,116,270 |

(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, 2019:

| | | 2019 | | |
|---|---|---|---|---|
| | | Without Donor Restrictions | With Donor Restrictions | Total |
| Changes in the fair value of endowment investments: | | | | |
| Investment return: | | | | |
| Endowment yield (interest and dividends) | $ | 24,499 | 60,725 | 85,224 |
| Net appreciation (realized and unrealized) on investments | | 127,919 | 246,712 | 374,631 |
| Total investment return | | 152,418 | 307,437 | 459,855 |
| Endowment payout | | (161,326) | (264,361) | (425,687) |
| Investment return, net of payout | | (8,908) | 43,076 | 34,168 |
| Other changes in endowment investments: | | | | |
| Gifts and pledge payments received in cash | | — | 131,738 | 131,738 |
| Transfers to create funds functioning as endowment | | 51,079 | — | 51,079 |
| Other changes | | 1,420 | 17,241 | 18,661 |
| Total other changes in endowment investments | | 52,499 | 148,979 | 201,478 |
| Net change in endowment investments | | 43,591 | 192,055 | 235,646 |
| Endowment investments at: | | | | |
| Beginning of year | | 2,056,342 | 4,869,300 | 6,925,642 |
| End of year | $ | 2,099,933 | 5,061,355 | 7,161,288 |
| Investments by type of fund: | | | | |
| Donor-restricted “true” endowment: | | | | |
| Historical gift value | $ | — | 2,163,712 | 2,163,712 |
| Appreciation | | — | 2,897,643 | 2,897,643 |
| Board-designated “funds functioning as endowment" | | 2,099,933 | — | 2,099,933 |
| Total – as above | $ | 2,099,933 | 5,061,355 | 7,161,288 |



(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, 2020:

| | | 2020 | | |
|---|---|---|---|---|
| | | **Without donor restrictions** | **With donor restrictions** | **Total** |
| Changes in the fair value of endowment investments: | | | | |
| Investment return: | | | | |
| Endowment yield (interest and dividends) | $ | 10,251 | 676 | 10,927 |
| Net appreciation (realized and unrealized) on investments | | 13,532 | 802 | 14,334 |
| Total investment return | | 23,783 | 1,478 | 25,261 |
| Endowment payout | | (48,014) | (3,883) | (51,897) |
| Investment return, net of payout | | (24,231) | (2,405) | (26,636) |
| Other changes in endowment investments: | | | | |
| Gifts and pledge payments received in cash | | 8,302 | 10 | 8,312 |
| Other changes | | 4,000 | — | 4,000 |
| Total other changes in endowment investments | | 12,302 | 10 | 12,312 |
| Net change in endowment investments | | (11,929) | (2,395) | (14,324) |
| Endowment investments at: | | | | |
| Beginning of year | | 923,571 | 95,694 | 1,019,265 |
| End of year | $ | 911,642 | 93,299 | 1,004,941 |
| Investments by type of fund: | | | | |
| Donor-restricted “true” endowment: | | | | |
| Historical gift value | $ | — | 17,280 | 17,280 |
| Appreciation | | — | 76,019 | 76,019 |
| Board-designated “funds functioning as endowment" | | 911,642 | — | 911,642 |
| Total – as above | $ | 911,642 | 93,299 | 1,004,941 |

(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, 2019:

| | 2019 | | |
|---|---|---|---|
| | **Without donor restrictions** | **With donor restrictions** | **Total** |
| Changes in the fair value of endowment investments: | | | |
| Investment return: | | | |
| Endowment yield (interest and dividends) | $ 12,282 | 935 | 13,217 |
| Net appreciation (realized and unrealized) on investments | 35,953 | 3,779 | 39,732 |
| Total investment return | 48,235 | 4,714 | 52,949 |
| Endowment payout | (41,314) | (3,900) | (45,214) |
| Investment return, net of payout | 6,921 | 814 | 7,735 |
| Other changes in endowment investments: | | | |
| Gifts and pledge payments received in cash | 89,042 | 13 | 89,055 |
| Other changes | 3,001 | — | 3,001 |
| Total other changes in endowment investments | 92,043 | 13 | 92,056 |
| Net change in endowment investments | 98,964 | 827 | 99,791 |
| Endowment investments at: | | | |
| Beginning of year | 824,607 | 94,867 | 919,474 |
| End of year | $ 923,571 | 95,694 | 1,019,265 |
| Investments by type of fund: | | | |
| Donor-restricted “true” endowment: | | | |
| Historical gift value | $ — | 17,487 | 17,487 |
| Appreciation | — | 78,207 | 78,207 |
| Board-designated “funds functioning as endowment" | 923,571 | — | 923,571 |
| Total – as above | $ 923,571 | 95,694 | 1,019,265 |

(In thousands of dollars)

### *(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, 2020:

| | | 2020 | | |
|---|---|---|---|---|
| | | **Without donor restrictions** | **With donor restrictions** | **Total** |
| Changes in the fair value of endowment investments: | | | | |
| Investment return: | | | | |
| Endowment yield (interest and dividends) | $ | 72 | 620 | 692 |
| Net appreciation (realized and unrealized) on investments | | 158 | 1,246 | 1,404 |
| Total investment return | | 230 | 1,866 | 2,096 |
| Endowment payout | | (470) | (3,948) | (4,418) |
| Investment return, net of payout | | (240) | (2,082) | (2,322) |
| Other changes in endowment investments: | | | | |
| Gifts and pledge payments received in cash | | — | 2,257 | 2,257 |
| Other changes | | — | — | — |
| Total other changes in endowment investments | | — | 2,257 | 2,257 |
| Net change in endowment investments | | (240) | 175 | (65) |
| Endowment investments at: | | | | |
| Beginning of year | | 8,708 | 74,607 | 83,315 |
| End of year | $ | 8,468 | 74,782 | 83,250 |
| Investments by type of fund: | | | | |
| Donor-restricted “true” endowment: | | | | |
| Historical gift value | $ | — | 53,890 | 53,890 |
| Appreciation | | — | 20,892 | 20,892 |
| Board-designated “funds functioning as endowment" | | 8,468 | — | 8,468 |
| Total – as above | $ | 8,468 | 74,782 | 83,250 |



(Continued)

(In thousands of dollars)

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, 2019:

| | | 2019 | | |
|---|---|---|---|---|
| | | **Without donor restrictions** | **With donor restrictions** | **Total** |
| Changes in the fair value of endowment investments: | | | | |
| Investment return: | | | | |
| Endowment yield (interest and dividends) | $ | 110 | 849 | 959 |
| Net appreciation (realized and unrealized) on investments | | 402 | 3,971 | 4,373 |
| Total investment return | | 512 | 4,820 | 5,332 |
| Endowment payout | | (513) | (3,931) | (4,444) |
| Investment return, net of payout | | (1) | 889 | 888 |
| Other changes in endowment investments: | | | | |
| Gifts and pledge payments received in cash | | — | 252 | 252 |
| Other changes | | (1,179) | (16) | (1,195) |
| Total other changes in endowment investments | | (1,179) | 236 | (943) |
| Net change in endowment investments | | (1,180) | 1,125 | (55) |
| Endowment investments at: | | | | |
| Beginning of year | | 9,888 | 73,482 | 83,370 |
| End of year | $ | 8,708 | 74,607 | 83,315 |
| Investments by type of fund: | | | | |
| Donor-restricted “true” endowment: | | | | |
| Historical gift value | $ | — | 53,890 | 53,890 |
| Appreciation | | — | 20,717 | 20,717 |
| Board-designated “funds functioning as endowment" | | 8,708 | — | 8,708 |
| Total – as above | $ | 8,708 | 74,607 | 83,315 |

### *(d) Interpretation of Relevant Law*

The “Uniform Prudent Management of Institutional Funds Act” (UPMIFA), which was enacted in the state of Illinois in 2009, 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, Medical Center, and MBL classify as net assets with donor restrictions 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. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted “true” endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift.

(In thousands of dollars)

### *(e) 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 net assets with donor restrictions. As of June 30, 2020 and 2019, funds with an original gift value of $892,725 and $126,589 were “underwater” by $25,137 and $2,818, respectively.

### *(f) Endowment Payout*

Approximately 98% 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 5.0% average payout over time, was 5.5% for the fiscal years ended June 30, 2020 and 2019. 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:

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| | University | Medical Center | MBL | Consolidated | Consolidated |
| TRIP formula payout | $ 376,650 | 43,595 | 4,418 | 424,663 | 412,039 |
| Payout from separately invested endowment | 6,832 | 8,302 | — | 15,134 | 13,709 |
| Special payouts: | | | | | |
| Alumni Relations and Development | 24,631 | — | — | 24,631 | 23,684 |
| Strategic initiatives | 10,688 | — | — | 10,688 | 15,913 |
| Operational support | — | — | — | — | 10,000 |
| Total | $ 418,801 | 51,897 | 4,418 | 475,116 | 475,345 |

(In thousands of dollars)

## (7) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2020 and 2019 are shown as follows:

| | | 2020 | | | 2019 |
|---|---|---|---|---|---|
| | | | Allowance for doubtful accounts | Net receivable | Net receivable |
| | | Receivable | | | |
| University: | | | | | |
| Patients | $ | 16,421 | (1,604) | 14,817 | 19,272 |
| Students: | | | | | |
| Loans | | 29,382 | (1,700) | 27,682 | 29,547 |
| Tuition and fees | | 6,952 | (2,380) | 4,572 | 4,576 |
| U.S. government | | 69,662 | — | 69,662 | 62,696 |
| All other | | 104,629 | (8,601) | 96,028 | 109,829 |
| Total University | | 227,046 | (14,285) | 212,761 | 225,920 |
| Medical Center - patients | | 1,078,107 | (744,431) | 333,676 | 399,130 |
| MBL | | 3,079 | (35) | 3,044 | 6,957 |
| Total | $ | 1,308,232 | (758,751) | 549,481 | 632,007 |

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 uncollectible.

## (8) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2020 and 2019 are shown as follows:

| | | 2020 | | | | 2019 |
|---|---|---|---|---|---|---|
| | | University | Medical Center | MBL | Consolidated | Consolidated |
| Land | $ | 120,448 | 55,610 | 52,931 | 228,989 | 227,812 |
| Buildings | | 4,514,113 | 1,914,984 | 108,569 | 6,537,666 | 6,383,544 |
| Equipment | | 576,044 | 753,017 | 32,033 | 1,361,094 | 1,301,952 |
| Books | | 429,192 | — | — | 429,192 | 411,506 |
| Construction in progress | | 163,263 | 21,759 | 715 | 185,737 | 124,288 |
| Subtotal | | 5,803,060 | 2,745,370 | 194,248 | 8,742,678 | 8,449,102 |
| Less accumulated depreciation | | (2,585,139) | (1,187,022) | (90,642) | (3,862,803) | (3,576,497) |
| Subtotal | | 3,217,921 | 1,558,348 | 103,606 | 4,879,875 | 4,872,605 |
| Residential properties held for sale | | 85 | — | — | 85 | 85 |
| Total | $ | 3,218,006 | 1,558,348 | 103,606 | 4,879,960 | 4,872,690 |

(In thousands of dollars)

## (9) Leases

The right-of-use asset and corresponding liability associated with future lease payments at June 30, 2020 are shown below:

| | University | Medical Center | | | |
|---|---|---|---|---|---|
| | Operating | Operating | Finance | Total | Consolidated |
| Right-of-use assets | $ 165,376 | $ 50,005 | $ - | $ 50,005 | $ 215,381 |
| Buildings and equipment | - | - | 33,377 | 33,377 | 33,377 |
| Lease liability | $ 169,385 | 50,005 | 36,987 | 86,992 | 256,377 |
| Weighted Average: | | | | | |
| Discount rate | 4.0% | 2.1% | 3.3% | | |
| Remaining lease term (years) | 11.4 | 9.1 | 11.2 | | |

### *(a) Lease Cost*

Lease cost reported in supplies, services and other in the consolidated statements of activities amounted to $41,566 in fiscal 2020 as follows:

| | **University** | **Medical Center** | **Consolidated** |
|---|---|---|---|
| Finance: | | | |
| Amortization of right-of-use assets | $ - | $ 4,970 | $ 4,970 |
| Interest on lease liaiblity | | 1,114 | 1,114 |
| Operating | 24,998 | 10,076 | 35,074 |
| Variable | 2,574 | 473 | 3,047 |
| Less sublease income | (136) | (2,503) | (2,639) |
| Total | $ 27,436 | $ 14,130 | $ 41,566 |

(In thousands of dollars)

### *(b) Future Lease Payments*

The following operating and finance lease payments are expected to be paid for each of the following fiscal years ending June 30:

| | University | Medical Center | | | Consolidated |
|---|---|---|---|---|---|
| Fiscal Year | Operating | Operating | Finance | Total | |
| 2021 | $ 19,622 | $ 5,497 | $ 8,703 | $ 14,200 | $ 33,822 |
| 2022 | 22,148 | 5,414 | 3,666 | 9,080 | 31,228 |
| 2023 | 21,223 | 5,400 | 3,393 | 8,793 | 30,016 |
| 2024 | 19,925 | 4,793 | 2,987 | 7,780 | 27,705 |
| 2025-2033 | 131,860 | 36,466 | 29,077 | 65,543 | 197,403 |
| | 214,778 | 57,570 | 47,826 | 105,396 | 320,174 |
| Less present value discount | (45,393) | (7,565) | (10,839) | (18,404) | (63,797) |
| Lease liability | $ 169,385 | $ 50,005 | $ 36,987 | $ 86,992 | $ 256,377 |

MBL does not have any lease activity as of June 30, 2020.

(In thousands of dollars)

## (10) Notes and Bonds Payable

Notes and bonds payable at June 30, 2020 and 2019 are shown as follows:

| | Fiscal year maturity | Interest rate | | 2020 | 2019 |
|---|---|---|---|---|---|
| University: | | | | | |
| Fixed rate: | | | | | |
| Illinois Finance Authority (IFA) | 2039–2053 | 3.2-5.0% | $ | 1,844,594 | 1,761,074 |
| Taxable bonds and loans | 2031–2054 | 2.4-5.2 | | 1,880,995 | 1,433,595 |
| Unamortized premium net of issuance costs | | | | 159,960 | 151,223 |
| Total fixed rate | | | | 3,885,549 | 3,345,892 |
| Variable rate: | | | | | |
| Illinois Educational Facilities Authority (IEFA) | 2026–2037 | 0.5-1.9 | | 31,350 | 223,072 |
| IFA | 2035 | 0.7 | | 66,876 | 70,074 |
| Taxable commercial paper ($200,000 available) | 2021 | 2.3 | | 25,000 | 55,300 |
| Bank lines of credit ($500,000 available) | 2021-2022 | 2.9 | | 167,969 | 231,500 |
| Total variable rate | | | | 291,195 | 579,946 |
| Total University | | | | 4,176,744 | 3,925,838 |
| Medical Center: | | | | | |
| Fixed rate: | | | | | |
| IFA | 2026-2045 | 2.7-5.0 | | 707,205 | 776,730 |
| Taxable bonds and loans | 2042-2047 | 2.7-4.4 | | 93,645 | 30,000 |
| New market tax credit bonds (NMTC) | 2024–2047 | 1.0-1.8 | | 42,176 | 42,176 |
| Unamortized premium and issuance costs | | | | 12,817 | 21,220 |
| Total fixed rate | | | | 855,843 | 870,126 |
| Variable rate: | | | | | |
| IFA | 2050 | 1.6 | | 68,403 | 69,801 |
| IEFA | 2038 | 1.1 | | 62,590 | 66,029 |
| Bank lines of credit ($200,000 available) | 2021 | — | | — | — |
| Total variable rate | | | | 130,993 | 135,830 |
| Total Medical Center | | | | 986,836 | 1,005,956 |
| MBL: | | | | | |
| Fixed rate: | | | | | |
| Massachusetts Development Finance Authority | 2036 | 0.1 | | 24,840 | 25,715 |
| Unamortized issuance cost | | | | (130) | (138) |
| Variable rate: | | | | | |
| Bank line of credit ($2,775 available) | 2021 | — | | — | — |
| Total MBL | | | | 24,710 | 25,577 |
| Total notes and bonds payable | | | $ | 5,188,290 | 4,957,371 |

(In thousands of dollars)

As of June 30, 2020, 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 $167,599, $325,000, and $24,840, respectively. As of June 30, 2019, 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 $171,099, $325,000, and $25,715, respectively.

### *(a) Fiscal 2020 Transactions*

During fiscal year 2020, the University entered into two off-market interest rate swap agreements that provided an up-front payment of $121,900 that has been classified as a fixed rate taxable loan. Proceeds from these agreements were used to paydown taxable commercial paper and operating line of credit balances that were used throughout the year as bridge-financing for construction and renovation of certain education facilities. Additionally, the University issued $165,000 of fixed rate bonds through the IFA and $335,000 of fixed rate taxable bonds proceeds from which were used to 1) advance refund $52,600 of IFA fixed rate bonds and $185,900 of IEFA variable rate bonds, 2) pay down $125,000 of the bank operating line of credit ,and 3) pay down $136,500 of taxable commercial paper.

During fiscal year 2020, the Medical Center issued $128,360 of taxable fixed rate debt. Proceeds were used to advance refund the Series 2012A and Series 2013A bonds.

### *(b) Interest Rate Swaps*

At June 30, 2020 and 2019, the fair value of the interest rate swap agreements was an accrued liability of $318,305 and $187,972, respectively, as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| University | $ | 118,692 | 47,708 |
| Medical center | | 193,907 | 136,186 |
| MBL | | 5,706 | 4,078 |
| Total | $ | 318,305 | 187,972 |

Included in the University’s accrued swap liability is an up-front payment of $1,430 associated with the fiscal year 2020 off-market swap agreement. Other changes in the fair value of the interest rate swap agreements are included as a nonoperating change in the without donor restrictions section of accompanying consolidated statements 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.

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 interest rate swap agreements when the liability of the swap with JP Morgan exceeds $40,000 and when the liability of the Wells Fargo swap exceeds $60,000. 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 and Wells Fargo when the liability of that swap exceeds $20,000. Upon further downgrade, the collateral requirements increase. As a result, $55,100 and $13,750 was held as collateral at June 30, 2020 and June 30,2019, respectively.

### *(c) Debt Payments*

Principal payments required in each of the five years ending June 30, 2021 through 2025 for the University notes and bonds are $37,093, $46,729, $73,720, $68,846, and $96,499, respectively.

Principal payments required in each of the five years ending June 30, 2021 through 2025 for the Medical Center notes and bonds are $20,430, $22,675, $23,068, $23,003, and $25,519, respectively.

Principal payments required in each of the five years ending June 30, 2021 through 2025 for MBL's notes and bonds are $910, $945, $980, $1,020, and $1,060, respectively.

### *(d) Collateral*

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

### *(e) Remarketing*

Included in the University, Medical Center, and MBL's notes and bonds payable are $458,794, $455,993, and $24,840, 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 credit facility agreements totaling $300,000, $387,590 and $24,840, respectively, which support variable rate debt in the event of a failed remarketing.

(In thousands of dollars)

## (11) Pledges

Pledges receivable at June 30, 2020 and 2019 are shown as follows:

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| | University | Medical Center | MBL | Consolidated | Consolidated |
| Unconditional promises expected to be collected in: | | | | | |
| Less than one year | $ 259,267 | 1,177 | 2,473 | 262,917 | 260,448 |
| One year to five years | 605,197 | 1,573 | 2,600 | 609,370 | 603,292 |
| More than five years | 1,430,217 | — | — | 1,430,217 | 1,517,069 |
| | 2,294,681 | 2,750 | 5,073 | 2,302,504 | 2,380,809 |
| Less: | | | | | |
| Valuation allowance | (994,085) | (52) | (530) | (994,667) | (1,061,792) |
| Total | $ 1,300,596 | 2,698 | 4,543 | 1,307,837 | 1,319,017 |

The University's five largest pledges comprise approximately 97 percent of pledges receivable at June 30, 2020. Included in this amount is an $838 million pledge receivable, net of a current year pledge payment and amortization of the discount, from a single donor consisting of the estimated fair value of a non-marketable equity investment in the donor's company aligned with the promise to give, along with the present value of estimated cash flows from the pledged asset.

In addition, at June 30, 2020, the University has received $119,862 of promises to give, that are conditional upon the raising of matching gifts from other sources or implementation of new academic programs. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

## (12) 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, 2020 and 2019, 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. 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.

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


(Continued)

(In thousands of dollars)

available assets prior to payment. If the present value method was not used, the liability for medical malpractice self insurance claims would be approximately $20,347 higher than the amount recorded in the consolidated financial statements at June 30, 2020. The interest rate assumed in determining the present value was 2.5%. The University recorded nonoperating actuarial adjustments of $9,183 and ($2,788) during the years ended June 30, 2020 and 2019, respectively, which are included in the without donor restrictions section of the accompanying consolidated statements of activities.

In addition, the Medical Center's Community Health and Hospital Division maintains a separate self-insurance program for medical malpractice and workers' compensation. Coverage from commercial insurance carriers is maintained for claims in excess of self-insured retentions at various levels by policy year. Under this program, annual contributions are made to a related trust at an actuarially determined rate. The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2020 and 2019 is presented as follows:

| | | 2020 | | | 2019 |
|---|---|---|---|---|---|
| | | University | Medical Center | Consolidated | Consolidated |
| Medical malpractice | $ | 185,822 | 63,871 | 249,693 | 235,119 |
| Workers' compensation | | 7,010 | 9,441 | 16,451 | 13,752 |
| Others | | 6,445 | — | 6,445 | 6,340 |
| Total | $ | 199,277 | 73,312 | 272,589 | 255,211 |

## (13) Pension Plans and Other Postretirement Benefits

### *(a) Pension Plans*

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. The University and Medical Center share contributions to the defined benefit pension plans based primarily on participation.

### *(b) Postretirement Benefits*

In addition to providing pension benefits, the University and MBL provide certain healthcare benefits for retired employees and the University provides 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.

The University's retiree health plan was re-measured in October 2018 to reflect a post-65 plan change to cover medical benefits through a fully insured Medicare Advantage plan. This re-measurement resulted in a fiscal year 2019 reduction in the accumulated benefit obligation of $120,384. The retiree health plan was again re-measured in September 2019 to reflect the addition of a Medicare Supplement plan choice for retirees who did not want to be enrolled in the Medicare Advantage plan. This re-measurement resulted in a current year increase in the accumulated benefit obligation of $22,390.

(In thousands of dollars)

### *(c) Funded Status*

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 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 946,250 | 921,794 | 173,840 | 320,510 |
| Service cost | 1,686 | 1,352 | 8,049 | 10,121 |
| Interest cost | 33,369 | 36,541 | 6,352 | 10,360 |
| Benefits paid | (56,283) | (58,379) | (5,966) | (9,099) |
| Plan amendment | — | — | 22,390 | (120,384) |
| Actuarial (gain) loss, net | 132,870 | 44,942 | (33,123) | (37,668) |
| Benefit obligation at end of year | 1,057,892 | 946,250 | 171,542 | 173,840 |
| Change in fair value of plan assets: | | | | |
| Fair value of plan assets at beginning of year | 763,789 | 745,768 | 83,630 | 62,136 |
| Actual return on plan assets | 71,499 | 63,137 | 8,728 | 7,589 |
| Employer contributions | 7,777 | 13,263 | 7,148 | 23,004 |
| Benefits paid | (56,283) | (58,379) | (5,966) | (9,099) |
| Fair value of plan assets at end of year | 786,782 | 763,789 | 93,540 | 83,630 |
| Funded status – liability | $ 271,110 | 182,461 | 78,002 | 90,210 |

The accumulated benefit obligation for the defined benefit pension plans was $1,052,014 and $941,052 at June 30, 2020 and 2019, respectively.

(In thousands of dollars)

### (d) Components of Net Periodic Benefit Cost

| | Defined benefit pension plans | | Other postretirement benefit plans | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Operating - Service cost | $ 1,686 | 1,352 | 8,060 | 10,133 |
| Nonoperating: | | | | |
| Interest cost | 33,369 | 36,541 | 6,403 | 10,430 |
| Expected return on plan assets | (45,207) | (44,545) | (5,608) | (4,905) |
| Amortization of prior service benefit | (95) | (258) | (22,539) | (19,854) |
| Amortization of actuarial loss | 21,114 | 16,876 | 5,652 | 9,049 |
| Settlements | 11,524 | 11,388 | — | — |
| Total nonoperating | 20,705 | 20,002 | (16,092) | (5,280) |
| Net periodic benefit cost | $ 22,391 | 21,354 | (8,032) | 4,853 |
| Amounts included in the consolidated statements of activities: | | | | |
| University | $ 12,975 | 11,664 | (7,720) | 5,155 |
| Medical Center | 9,416 | 9,690 | — | — |
| MBL | — | — | (312) | (302) |
| Total | $ 22,391 | 21,354 | (8,032) | 4,853 |

### (e) 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 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Discount rate | 2.9 % | 3.6 % | 3.1 % | 3.7 % |
| Expected return on plan assets | 6.3 | 6.3 | 6.3 | 6.3 |
| Rate of compensation increase | 3.5 | 3.5 | 3.8 | 3.7 |
| Healthcare cost trend rates: | | | | |
| Next two fiscal years | | | 8.1-8.7% | 7.3%–7.7% |
| Next seven fiscal years | | | 5.3-7.6% | 4.6%–6.9% |
| Thereafter | | | 4.5-5.2% | 4.5% |

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.

(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:

| | | 2020 | 2019 |
|---|---|---|---|
| Effect on total service cost and interest cost: | | | |
| One-percentage-point increase | $ | 2,459 | 4,612 |
| One-percentage-point decrease | | (1,848) | (3,398) |
| Effect on year-end postretirement benefit obligation: | | | |
| One-percentage-point increase | $ | 24,938 | 31,771 |
| One-percentage-point decrease | | (19,505) | (24,396) |

### *(f) 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 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Domestic public equities | 26 % | 23 % | 49 % | 50 % |
| International public equities | 24 | 27 | — | — |
| Fixed income | 50 | 50 | 51 | 50 |
| | 100 % | 100 % | 100 % | 100 % |

As of June 30, 2020, 75% 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 25% 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 50% public equities and 50% 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, 2020.

### *(g) Contributions*

The University, combined with the Medical Center, expects to contribute approximately $5,500 to the defined benefit pension plans in fiscal year 2021.

(In thousands of dollars)

### *(h) 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 plans | Other postretirement benefit plans |
|---|---|---|---|
| 2021 | $ | 71,791 | 4,669 |
| 2022 | | 56,657 | 5,634 |
| 2023 | | 54,279 | 7,554 |
| 2024 | | 52,983 | 8,022 |
| 2025 | | 52,881 | 8,748 |
| 2026–2030 | | 274,079 | 52,454 |

### *(i) 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, 2020 and 2019, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of $5,947 and $6,125 at June 30, 2020 and 2019, respectively.

### *(j) Defined Contribution Pension Plan*

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to $82,694 in fiscal year 2020 and $76,870 in fiscal year 2019 for the University and $35,800 in fiscal year 2020 and $34,200 in fiscal year 2019 for the Medical Center.

## (14) Functional Classification of Expenses

The University's primary program service is academic instruction and research. Expenses reported as auxiliary enterprises, library, and student services are incurred in support of this primary program activity. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

(In thousands of dollars)

Expenses by functional classification for the year ended June 30, 2020 consist of the following:

| | 2020 | | | |
|---|---|---|---|---|
| | Academic and research | Healthcare service | Administrative support | Total |
| Operating expenses: | | | | |
| Compensation | $ 1,531,392 | 970,553 | 308,664 | 2,810,609 |
| Utilities, alterations, and repairs | 57,796 | 37,625 | 6,053 | 101,474 |
| Depreciation | 184,563 | 130,744 | 32,140 | 347,447 |
| Interest | 108,689 | 39,490 | 48,911 | 197,090 |
| Supplies, services, and other | 407,467 | 1,126,376 | 168,562 | 1,702,405 |
| Operating expenses | $ 2,289,907 | 2,304,788 | 564,330 | 5,159,025 |
| Nonoperating net periodic benefit cost other than service cost | | | | 4,613 |
| Total | | | | $ 5,163,638 |

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

| | 2019 | | | |
|---|---|---|---|---|
| | Academic and research | Healthcare service | Administrative support | Total |
| Operating expenses: | | | | |
| Compensation | $ 1,441,289 | 887,053 | 299,304 | 2,627,646 |
| Utilities, alterations, and repairs | 56,379 | 32,702 | 6,525 | 95,606 |
| Depreciation | 182,197 | 112,468 | 46,510 | 341,175 |
| Interest | 110,162 | 38,079 | 45,453 | 193,694 |
| Supplies, services, and other | 461,658 | 990,221 | 181,338 | 1,633,217 |
| Operating expenses | $ 2,251,685 | 2,060,523 | 579,130 | 4,891,338 |
| Nonoperating net periodic benefit cost other than service cost | | | | 14,723 |
| Total | | | | $ 4,906,061 |

## (15) 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, 2019 and 2018 was $236,958 and $195,520, respectively. Net assets at December 31, 2019 and 2018 were $54,179 and $47,206, 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 $917,928 for ANL and $488,615 for Fermilab in fiscal year 2020, and $881,982 for ANL and $461,094 for Fermilab in fiscal year 2019 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.

## (16) Contingencies

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

Schedule 1

**THE UNIVERSITY OF CHICAGO**

Consolidating Balance Sheet

June 30, 2020

(In thousands of dollars)

| **Assets** | | **University** | **Medical Center** | **MBL** | **2020 Consolidated** |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 181,983 | 538,725 | 2,276 | 722,984 |
| Notes and accounts receivable, net | | 212,761 | 333,676 | 3,044 | 549,481 |
| Prepaid expenses and other assets | | 153,443 | 202,801 | 3,713 | 359,957 |
| Right-of-use assets – operating leases | | 165,376 | 50,005 | — | 215,381 |
| Pledges receivable, net | | 1,300,596 | 2,698 | 4,543 | 1,307,837 |
| Investments | | 7,860,443 | 1,286,124 | 93,969 | 9,240,536 |
| Land, buildings, equipment, and books, net | | 3,218,006 | 1,558,348 | 103,606 | 4,879,960 |
| Total assets | $ | 13,092,608 | 3,972,377 | 211,151 | 17,276,136 |
| **Liabilities and Net Assets** | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ | 572,693 | 965,840 | 9,313 | 1,547,846 |
| Deferred revenue | | 150,655 | 51,615 | 3,687 | 205,957 |
| Assets held in custody for others | | 159,929 | — | — | 159,929 |
| Self-insurance liability | | 199,277 | 73,312 | — | 272,589 |
| Pension and other postretirement benefit obligations | | 349,112 | — | — | 349,112 |
| Asset retirement obligation | | 40,390 | 12,004 | — | 52,394 |
| Lease liability | | 169,385 | 86,992 | — | 256,377 |
| Notes and bonds payable | | 4,176,744 | 986,836 | 24,710 | 5,188,290 |
| Refundable U.S. government student loan funds | | 20,342 | — | — | 20,342 |
| Total liabilities | | 5,838,527 | 2,176,599 | 37,710 | 8,052,836 |
| Net assets: | | | | | |
| Without donor restrictions | | 741,704 | 1,684,093 | 86,602 | 2,512,399 |
| With donor restrictions | | 6,512,377 | 111,685 | 86,839 | 6,710,901 |
| Total net assets | | 7,254,081 | 1,795,778 | 173,441 | 9,223,300 |
| Total liabilities and net assets | $ | 13,092,608 | 3,972,377 | 211,151 | 17,276,136 |

See accompanying independent auditors’ report.

**Schedule 2**

**THE UNIVERSITY OF CHICAGO**

Consolidating Statement of Activities

Year ended June 30, 2020

(In thousands of dollars)

| | | University | Medical Center | MBL | 2020 Consolidated |
|---|---|---|---|---|---|
| Changes in net assets without donor restrictions: | | | | | |
| Operating: | | | | | |
| Revenue: | | | | | |
| Tuition and fees, net of student aid | $ | 523,499 | — | 785 | 524,284 |
| Government grants and contracts | | 385,605 | — | 12,237 | 397,842 |
| Private gifts, grants, and contracts | | 237,225 | 137 | 4,363 | 241,725 |
| Endowment payout | | 417,960 | 51,897 | 4,418 | 474,275 |
| Patient service | | 299,633 | 2,049,957 | — | 2,349,590 |
| Auxiliaries | | 135,809 | — | 3,171 | 138,980 |
| Other income | | 273,137 | 422,886 | 1,002 | 697,025 |
| Net assets released from restrictions | | 137,364 | 8,549 | 3,963 | 149,876 |
| Total operating revenue | | 2,410,232 | 2,533,426 | 29,939 | 4,973,597 |
| Expenses: | | | | | |
| Compensation: | | | | | |
| Academic salaries | | 678,178 | — | 8,000 | 686,178 |
| Staff salaries | | 712,004 | 869,106 | 10,141 | 1,591,251 |
| Benefits | | 330,819 | 195,559 | 6,802 | 533,180 |
| Total compensation | | 1,721,001 | 1,064,665 | 24,943 | 2,810,609 |
| Other operating expenses: | | | | | |
| Utilities, alterations, and repairs | | 58,704 | 40,672 | 2,098 | 101,474 |
| Depreciation | | 211,213 | 131,609 | 4,625 | 347,447 |
| Interest | | 153,891 | 42,257 | 942 | 197,090 |
| Supplies, services, and other | | 473,227 | 1,217,586 | 11,592 | 1,702,405 |
| Total other operating expenses | | 897,035 | 1,432,124 | 19,257 | 2,348,416 |
| Total operating expenses | | 2,618,036 | 2,496,789 | 44,200 | 5,159,025 |
| Excess (deficiency) of operating revenue over expenses | $ | (207,804) | 36,637 | (14,261) | (185,428) |



(Continued)

**Schedule 2**

**THE UNIVERSITY OF CHICAGO**

Consolidating Statement of Activities

Year ended June 30, 2020

(In thousands of dollars)

| | | University | Medical Center | MBL | 2020 Consolidated |
|---|---|---|---|---|---|
| Changes in net assets without donor restrictions: | | | | | |
| Nonoperating: | | | | | |
| Investment (losses) | $ | (72,571) | (26,439) | (241) | (99,251) |
| Net periodic benefit cost other than service cost | | 4,480 | (9,416) | 323 | (4,613) |
| Retiree health plan change | | (22,390) | — | — | (22,390) |
| Other pension and postretirement benefit changes | | (54,304) | 6,593 | 87 | (47,624) |
| Change in value of derivative instruments | | (69,554) | (57,721) | (1,628) | (128,903) |
| Other, net | | (21,970) | (1,943) | 13,547 | (10,366) |
| Net assets released from restrictions | | 10,447 | — | — | 10,447 |
| Nonoperating changes in net assets without donor restrictions | | (225,862) | (88,926) | 12,088 | (302,700) |
| Decrease in net assets without donor restrictions | | (433,666) | (52,289) | (2,173) | (488,128) |
| Changes in net assets with donor restrictions: | | | | | |
| Private gifts | | 287,593 | 5,671 | 4,156 | 297,420 |
| Recognition of future income from pledged assets | | — | | — | — |
| Endowment payout | | 841 | — | — | 841 |
| Investment gains (losses) | | (150,782) | 1,477 | (2,071) | (151,376) |
| Other, net | | 6,556 | (5) | 1,004 | 7,555 |
| Net assets released from restrictions | | (147,811) | (8,549) | (3,963) | (160,323) |
| Decrease in net assets with donor restrictions | | (3,603) | (1,406) | (874) | (5,883) |
| Decrease in net assets | | (437,269) | (53,695) | (3,047) | (494,011) |
| Net assets at beginning of year | | 7,691,350 | 1,849,473 | 176,488 | 9,717,311 |
| Net assets at end of year | $ | 7,254,081 | 1,795,778 | 173,441 | 9,223,300 |

See accompanying independent auditors' report.

**THE UNIVERSITY OF CHICAGO**

Consolidating Statement of Cash Flows

Year ended June 30, 2020

(In thousands of dollars)

| | University | Medical Center | MBL | 2020 Consolidated |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Decrease in net assets | $ (437,269) | (53,695) | (3,047) | (494,011) |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 211,213 | 131,609 | 4,625 | 347,447 |
| Change in value of derivative instruments | 69,554 | 57,721 | 1,628 | 128,903 |
| Loss on disposal of land, buildings, equipment, and books | 6,478 | 4,135 | 13 | 10,626 |
| Net gain on investments | (129,693) | (14,505) | (1,411) | (145,609) |
| (Gain) loss on debt refinancing | (5,552) | 2,347 | — | (3,205) |
| Reduction in the carrying amount of the right-of-use assets - operating leases | 17,948 | 3,038 | — | 20,986 |
| Private gifts and grants restricted for long-term investment | (287,593) | (11,246) | (3,100) | (301,939) |
| Other nonoperating changes | 176,922 | 8,549 | (13,473) | 171,998 |
| Pension and postretirement benefit changes | 72,214 | 2,823 | (398) | 74,639 |
| Changes in operating assets and liabilities: | | | | |
| Notes and accounts receivable | 13,159 | 65,454 | 3,913 | 82,526 |
| Prepaid expenses and other assets | (35,483) | (7,441) | 1,205 | (41,719) |
| Accounts payable and other liabilities | 56,106 | 305,434 | (2,549) | 358,991 |
| Lease liability | (13,939) | (3,038) | — | (16,977) |
| Self-insurance liability | (6,437) | 23,815 | — | 17,378 |
| Total adjustments | 144,897 | 568,695 | (9,547) | 704,045 |
| Net cash provided by (used in) operating activities | (292,372) | 515,000 | (12,594) | 210,034 |
| Cash flows from investing activities: | | | | |
| Purchase of investments | (2,201,855) | (469,309) | (13,375) | (2,684,539) |
| Proceeds from sale of investments | 2,452,770 | 461,900 | 13,214 | 2,927,884 |
| Proceeds from sale of property | 995 | - | 700 | 1,695 |
| Acquisition of land, buildings, equipment, and books | (233,386) | (117,654) | (3,450) | (354,490) |
| Net cash provided by (used in) investing activities | 18,524 | (125,063) | (2,911) | (109,450) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of debt instruments | 2,927,038 | 228,360 | — | 3,155,398 |
| Principal payments on debt instruments | (2,670,383) | (249,827) | (867) | (2,921,077) |
| Payment of finance lease liability | — | (2,466) | — | (2,466) |
| Proceeds from private gifts and grants restricted | | | — | |
| for long-term investment | 179,814 | (1,401) | 2,852 | 181,265 |
| Other nonoperating changes | (58,821) | — | 13,282 | (45,539) |
| Net cash provided by (used in) financing activities | 377,648 | (25,334) | 15,267 | 367,581 |
| Increase (decrease) in cash and cash equivalents | 103,800 | 364,603 | (238) | 468,165 |
| Cash and cash equivalents at: | | | | |
| Beginning of year | 78,183 | 174,122 | 2,514 | 254,819 |
| End of year | $ 181,983 | 538,725 | 2,276 | 722,984 |
| Supplemental disclosures of cash flow information: | | | | |
| Cash paid for interest | $ 156,202 | 42,629 | 994 | 199,825 |
| Change in construction payable | 3,620 | 3,108 | 221 | 6,949 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash flows from operating leases | 19,478 | 8,383 | — | 27,861 |
| Operating cash flows from finance leases | — | 1,191 | — | 1,191 |
| Financing cash flows from finance leases | — | 2,466 | — | 2,466 |
| Right-of-use assets upon ASC 842 implementation: | | | | |
| Finance leases | — | 27,681 | — | 27,681 |
| Operating leases | 183,324 | 53,043 | — | 236,367 |

See accompanying independent auditors’ report.