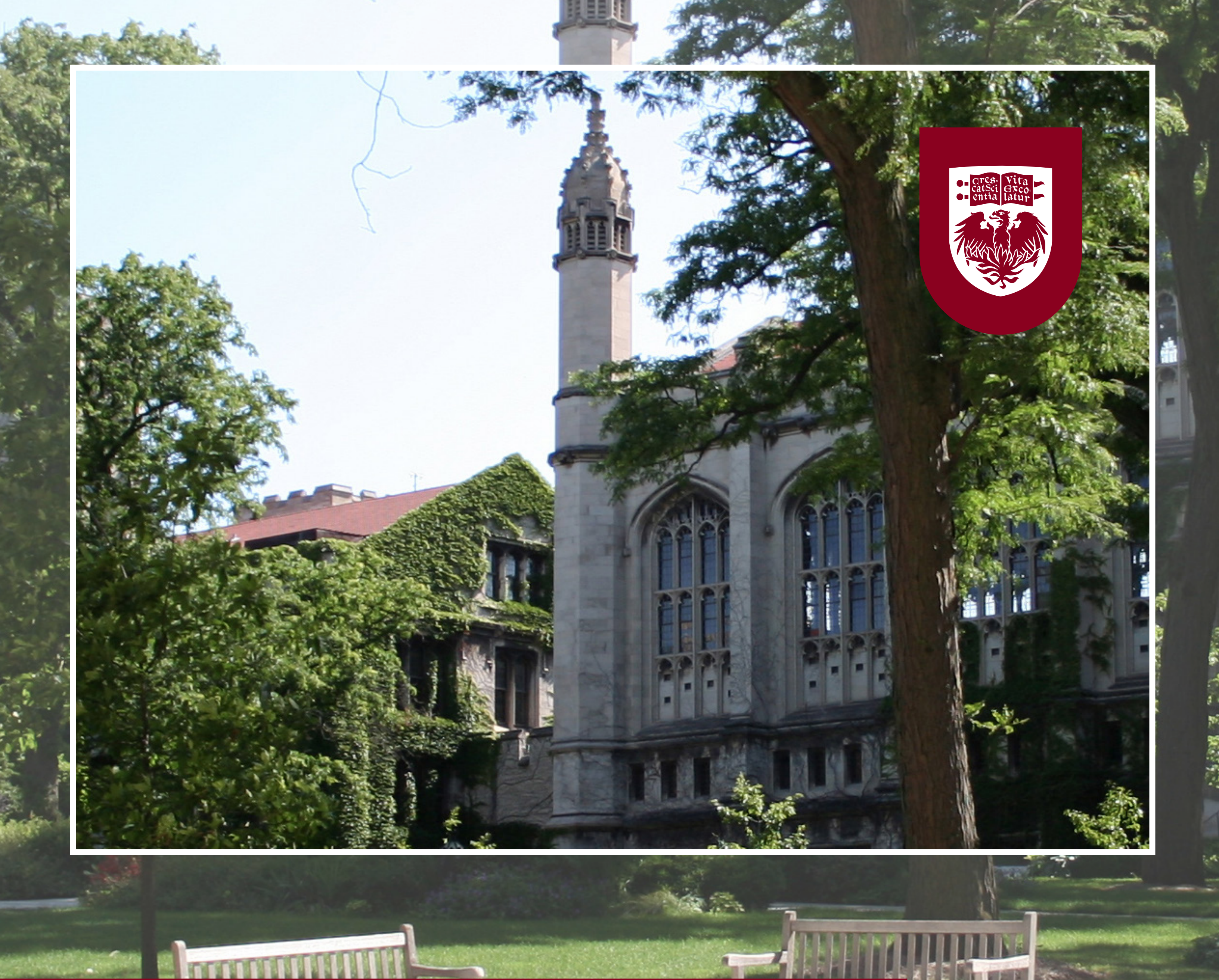

The University of Chicago

2020-2021

Financial Statements and Supplemental University Information

THE UNIVERSITY OF CHICAGO

Years ended June 30, 2021 and 2020

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THE UNIVERSITY OF CHICAGO

Management’s Responsibility for Consolidated Financial Statements

June 30, 2021 and 2020

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.

Brett Padgett
Interim 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, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, 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 auditor considers 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, 2021 and 2020, 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.

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. Such 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 1, 2021

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2021 and 2020

(In thousands of dollars)

Assets		2021	2020
Cash and cash equivalents	$	381,941	722,984
Notes and accounts receivable, net		646,926	549,481
Prepaid expenses and other assets		396,643	359,957
Right-of-use assets – operating leases		205,444	215,381
Pledges receivable, net		1,329,486	1,307,837
Investments		12,741,704	9,240,536
Land, buildings, equipment, and books, net		4,754,371	4,879,960
Total assets	$	20,456,515	17,276,136
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	1,502,673	1,547,846
Deferred revenue		164,325	205,957
Assets held in custody for others		244,090	159,929
Self-insurance liability		313,801	272,589
Pension and other postretirement benefit obligations		188,862	349,112
Asset retirement obligation		51,825	52,394
Lease liability		280,935	256,377
Notes and bonds payable		5,308,389	5,188,290
Refundable U.S. government student loan funds		16,231	20,342
Total liabilities		8,071,131	8,052,836
Net assets:			
Without donor restrictions		3,856,778	2,512,399
With donor restrictions		8,528,606	6,710,901
Total net assets		12,385,384	9,223,300
Total liabilities and net assets	$	20,456,515	17,276,136

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2021 and 2020

(In thousands of dollars)

	2021	2020
Changes in net assets without donor restrictions:		
Operating:		
Revenue:		
Tuition and fees, net of student aid	$ 526,209	524,284
Government grants and contracts	445,904	397,842
Private gifts, grants, and contracts	260,803	241,725
Endowment payout	495,253	474,275
Patient service	2,537,904	2,232,329
Auxiliaries	135,143	138,980
Other income	643,340	697,025
Net assets released from restrictions	169,958	149,876
Total operating revenue	5,214,514	4,856,336
Expenses:		
Compensation:		
Academic salaries	713,448	686,178
Staff salaries	1,667,512	1,591,251
Benefits	480,777	533,180
Total compensation	2,861,737	2,810,609
Other operating expenses:		
Utilities, alterations, and repairs	93,293	101,474
Depreciation	347,593	347,447
Interest	202,470	197,090
Supplies, services, and other	1,636,409	1,585,144
Total other operating expenses	2,279,765	2,231,155
Total operating expenses	5,141,502	5,041,764
Excess (deficiency) of operating revenue over expenses	$ 73,012	(185,428)

(Continued)

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2021 and 2020

(In thousands of dollars)

		2021	2020
Changes in net assets without donor restrictions :			
Nonoperating:			
Investment gains (losses)	$	933,421	(99,251)
Net periodic benefit cost other than service cost		(4,375)	(4,613)
Retiree health plan change		—	(22,390)
Other pension and postretirement benefit changes		178,381	(47,624)
Changes in fair value of derivative instruments		124,740	(128,903)
Gain (loss) on debt refinancing		(22,386)	3,205
Other, net		46,054	(13,571)
Net assets released from restrictions		15,532	10,447
Nonoperating changes in net assets without donor restrictions		1,271,367	(302,700)
Increase (decrease) in net assets without donor restrictions		1,344,379	(488,128)
Changes in net assets with donor restrictions:			
Private gifts		369,940	297,420
Endowment payout		849	841
Investment gains (losses)		1,616,616	(151,376)
Other, net		15,789	7,555
Net assets released from restrictions		(185,489)	(160,323)
Increase (decrease) in net assets with donor restrictions		1,817,705	(5,883)
Increase (decrease) in net assets		3,162,084	(494,011)
Net assets at beginning of year		9,223,300	9,717,311
Net assets at end of year	$	12,385,384	9,223,300

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands of dollars)

		2021	2020
Cash flows from operating activities:			
Increase (decrease) in net assets	$	3,162,084	(494,011)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation		347,593	347,447
Change in value of derivative instruments		(124,740)	128,903
Loss on disposal of land, buildings, equipment, and books		4,922	10,626
Net gain on investments		(2,966,536)	(145,609)
(Gain) loss on debt refinancing		22,386	(3,205)
Reduction in the carrying amount of the right-of-use assets – operating leases		9,937	20,986
Private gifts and grants restricted for long-term investment		(369,281)	(301,939)
Other nonoperating changes		185,619	171,998
Pension and postretirement benefit changes		(174,000)	74,639
Changes in operating assets and liabilities:			
Notes and accounts receivable		(97,440)	82,526
Prepaid expenses and other assets		(30,616)	(41,719)
Accounts payable and other liabilities		120,348	358,991
Lease liability		34,015	(16,977)
Self-insurance liability		41,212	17,378
Total adjustments		(2,996,581)	704,045
Net cash provided by operating activities		165,503	210,034
Cash flows from investing activities:			
Purchase of investments		(2,875,658)	(2,684,539)
Proceeds from sale of investments		2,317,644	2,927,884
Proceeds from sale of property		257	1,695
Acquisition of land, buildings, equipment, and books		(227,439)	(354,490)
Net cash used in investing activities		(785,196)	(109,450)
Cash flows from financing activities:			
Proceeds from issuance of debt instruments		1,105,680	3,155,398
Principal payments on debt instruments		(984,749)	(2,921,077)
Payment of finance lease liability		(9,457)	(2,466)
Proceeds from private gifts and grants restricted for long-term investment		174,528	181,265
Other nonoperating changes		(7,352)	(45,539)
Net cash provided by financing activities		278,650	367,581
Increase (decrease) in cash and cash equivalents		(341,043)	468,165
Cash and cash equivalents at:			
Beginning of year		722,984	254,819
End of year	$	381,941	722,984
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	206,760	199,825
Change in construction payable		(8,090)	6,949
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases		28,850	27,861
Operating cash flows from finance leases		2,406	1,191
Financing cash flows from finance leases		9,457	2,466
Right of use assets obtained in exchange for new lease obligations:			
Finance leases		34,573	27,681
Operating leases		9,786	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:

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
University:						
Operating	$ (1,265,700)	68,073	(1,197,627)	(1,482,260)	61,274	(1,420,986)
Unamortized capital gifts for construction	153,143	1,642	154,785	160,776	2,037	162,813
Pledges receivable	—	1,316,881	1,316,881	—	1,300,596	1,300,596
Student loan funds	—	30,607	30,607	—	29,140	29,140
Endowment funds	2,709,296	6,775,158	9,484,454	2,063,188	5,053,082	7,116,270
Annuity and life income funds	—	76,322	76,322	—	66,248	66,248
Subtotal	1,596,739	8,268,683	9,865,422	741,704	6,512,377	7,254,081
Medical Center:						
Operating	830,620	22,837	853,457	772,451	15,688	788,139
Pledges receivable	—	7,997	7,997	—	2,698	2,698
Endowment funds	1,339,160	114,690	1,453,850	911,642	93,299	1,004,941
Subtotal	2,169,780	145,524	2,315,304	1,684,093	111,685	1,795,778
Marine Biological Laboratory:						
Operating	78,893	9,704	88,597	77,773	6,895	84,668
Pledges receivable	—	4,608	4,608	—	4,543	4,543
Annuity and life income funds	360	591	951	361	619	980
Endowment funds	11,006	99,496	110,502	8,468	74,782	83,250
Subtotal	90,259	114,399	204,658	86,602	86,839	173,441
Total	$ 3,856,778	8,528,606	12,385,384	2,512,399	6,710,901	9,223,300

(In thousands of dollars)

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment which amounted to $4,059,462 and $2,983,298 as of June 30, 2021 and 2020, 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 $230,181 and $186,271 as of June 30, 2021 and 2020, 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 $11,469 in fiscal year 2021 and $10,942 in fiscal year 2020, 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.

(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:

	2021			2020		
	Tuition and fees	Student aid	Net	Tuition and fees	Student aid	Net
University:						
Precollegiate	$ 74,185	(4,549)	69,636	75,706	(7,253)	68,453
College	396,809	(168,379)	228,430	384,084	(152,466)	231,618
Graduate and professional schools	577,958	(373,160)	204,798	562,341	(357,794)	204,547
Continuing professional education and other	25,564	(2,337)	23,227	22,241	(3,360)	18,881
	1,074,516	(548,425)	526,091	1,044,372	(520,873)	523,499
Marine Biological Laboratory	404	(286)	118	1,650	(865)	785
Total	$ 1,074,920	(548,711)	526,209	1,046,022	(521,738)	524,284

(In thousands of dollars)

(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, 2021 and 2020 are $69,649 and $68,301, 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, 2021 approximates the annual revenue reported on the consolidated statement of activities.

Private gifts, grants, and contracts operating revenue for fiscal years 2021 and 2020 consist of the following:

	2021				
	University	Medical Center	MBL	Consolidated	2020 Consolidated
Private gifts:					
Unrestricted as to use	$ 45,117	88	2,450	47,655	25,265
Restricted gifts whose restrictions were met during the fiscal year and reported as operating revenue	99,800	—	—	99,800	97,102
Private grants and contracts	110,500	—	2,848	113,348	119,358
Total	$ 255,417	88	5,298	260,803	241,725

(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.

(In thousands of dollars)

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

		2021				2020
		University	Medical Center	Elimination	Consolidated	Consolidated
Medicare	$	84,692	675,959	(35,232)	725,419	653,686
Medicaid		60,327	580,336	(30,248)	610,415	490,033
Managed care		150,765	1,066,617	(55,594)	1,161,788	1,049,523
Patients and other		32,134	8,597	(449)	40,282	39,087
Net patient service revenue after provision for doubtful accounts	$	327,918	2,331,509	(121,523)	2,537,904	2,232,329

University Biological Sciences Division (BSD) physicians perform ambulatory clinical patient care services at the Medical Center which generate patient service revenue for the Medical Center. The University incurs the compensation expense related to these services and the Medical Center transfers the earned revenue to the University for these services, which are recognized by the University as patient service revenue. To avoid a gross-up of patient service revenue and operating expenses in the consolidated statement of activities, beginning in FY2021, patient care and operating expenses have been adjusted. A similar adjustment of $117 million has been made to the consolidated FY2020 totals. The net impact of these consolidating adjustments had no impact on the consolidated operating results.

(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 2021 and 2020, the amount of interest capitalized amounted to $274 and $1,114 for the University and $751 and $505 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. All short-term, highly liquid investments, otherwise qualifying as cash equivalents or restricted cash equivalents, included in the University's investments are treated as Investments, at fair value and are therefore excluded from Cash and cash equivalents in the Statements of Cash Flows. 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. Investments in cryptocurrency are reported at fair market value and are classified as 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, 2021 and 2020, 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, 2021 and 2020 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, 2021 and 2020, the University had liabilities of $52,450 and $53,829 associated with its charitable remainder trust and gift annuity contracts and deferred revenue of $5,713 and $4,781 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.

(Continued)

(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.

(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 2021 and 2020, 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.

(Continued)

(m) COVID-19 Pandemic

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 and fiscal year 2021.

During fiscal years 2021 and 2020, the University received $15,684 and $5,100 and the Medical Center received $11,136 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 for the year ended June 30, 2021, the University and the Medical Center have recognized revenue of $12,695 as government grants and contracts and $64,792 as other income, respectively, in the operating section of the change in net assets without donor restrictions in the consolidated statement of activities. For the year ended June 30, 2020, the University and 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 consolidated statement of activities. As of June 30, 2021 and 2020, the Medical Center has received $949 and $51,615 of provider relief distributions which have been classified as deferred revenue in the consolidated balance sheets. This funding is expected to be recognized as operating revenue in fiscal year 2022.

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). 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. As of June 30, 2021, the University and Medical Center have remaining APP balances of $6,374 and $183,259, respectively, which are reported as accounts payable and accrued liabilities in the consolidated balance sheets. On September 30, 2020, federal legislation extended the terms of APP payments such that any claims for services provided to Medicare beneficiaries will be applied against the advance payment balance beginning 365 days after receipt.

On June 11, 2021, the Department of Health and Human Services provided Post-Payment Notice of Reporting Requirements for providers that received funding under the CARES Act. The provisions within this notice provide new guidance on the reporting portal and requirements around healthcare related expenses attributable to COVID-19 and "lost revenue." The guidance provides for various reporting deadlines beginning September 30, 2021 for Period 1 with a 60 day grace period for compliance. The Medical Center anticipates meeting the requirements for reporting under the timelines provisioned.

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. At June 30, 2021 and 2020, the University had a liability of $39,789 and $15,597 and the Medical Center had a liability of $36,800 and $11,509 associated with this payroll tax deferral. MBL did not defer the employer portion of payroll taxes. Additionally, the CARES Act provides for a payroll tax credit designed to encourage retention of employees during the pandemic. The University and Medical Center are evaluating their eligibility and related data for consideration of the employee retention credit.

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 future potential impacts from COVID-19 on the University cannot be determined at this time, the University continues to monitor the course of the virus and related health and regulatory developments and, if necessary, is prepared to take additional measures to protect the health and welfare of the University.

(n) Reclassifications

Certain 2020 amounts have been reclassified to conform to the 2021 financial statement presentation.

(o) Subsequent Events

In July 2021, the University issued $281,361 in tax-exempt fixed rate bonds. Proceeds were used to advance refund IFA fixed rate bonds.

In August 2021, the University sold a building previously held for sale for $22,571. See note 8.

(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 $483,636 and $504,839 for the years ended June 30, 2021 and 2020, respectively.

(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 $68,521 in fiscal year 2021 and $57,472 in fiscal year 2020 have been recorded as operating revenue and (2) transfers to the University of $71,750 in fiscal years 2020 and 2021 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, 2021 and 2020, 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:

	2021				2020
	University	Medical Center	MBL	Consolidated	Consolidated
Financial assets:					
Cash and cash equivalents	$ 194,731	184,639	2,181	381,551	722,984
Notes and accounts receivable, net	135,223	437,141	3,919	576,283	480,082
Pledge payments available for operations	138,350	2,289	1,276	141,915	133,924
Short-term investments	265,031	241,160	15,272	521,463	41,719
Board designations:					
Funds functioning as endowment available for operations	230,181	—	—	230,181	186,271
Subsequent year’s endowment payout	417,195	65,130	4,701	487,026	472,121
Total financial assets available within one year	1,380,711	930,359	27,349	2,338,419	2,037,101
Liquidity resources:					
Taxable commercial paper	200,000	—	—	200,000	200,000
Bank lines of credit	400,000	100,000	—	500,000	702,775
Total financial assets and liquidity resources available within one year	$ 1,980,711	1,030,359	27,349	3,038,419	2,939,876

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, 2021, there were no outstanding amounts under these lines of credit facilities.

In addition, as of June 30, 2021 the University, Medical Center, and MBL had an additional $2,479,115, $1,339,160, and $11,006 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, 2021 and 2020 are comprised of the following:

		2021 Consolidated	2020 Consolidated
Cash equivalents	$	457,821	507,312
Global public equities (primarily international)		4,099,956	3,120,005
Private debt		462,894	419,852
Private equity		2,944,351	1,695,493
Real estate		571,748	496,147
Natural resources		529,338	435,258
Absolute return		2,628,163	1,855,405
Fixed income		961,323	580,460
Funds in trust		86,110	130,604
Total	$	12,741,704	9,240,536

(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, 2021 and 2020. 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, 2021:

	Level 1	Level 2	2021 Consolidated total
Cash equivalents	$ 457,821	—	457,821
Global public equities (primarily international)	980,683	21,539	1,002,222
Real estate	131,547	—	131,547
Absolute return – Cryptocurrency	64,474	—	64,474
Fixed income	961,323	—	961,323
Funds in trust	59,781	12,671	72,452
	$ 2,655,629	34,210	2,689,839
Investments measured at net asset value			10,051,865
Total investments at fair value as of June 30, 2021			$ 12,741,704

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
Real estate	105,711	—	105,711
Fixed income	580,460	—	580,460
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

During fiscal years 2021 and 2020, there were no transfers between investment Levels 1 and 2.

(In thousands of dollars)

A summary of investment return by entity, net of expenses, is presented below for the years ended June 30, 2021 and 2020:

		2021				2020
		University	Medical Center	MBL	Consolidated	Consolidated
Investment return:						
Interest and dividends	$	67,783	11,104	716	79,603	78,880
Net realized and unrealized gains		2,537,479	399,589	29,468	2,966,536	145,609
Investment return	$	2,605,262	410,693	30,184	3,046,139	224,489

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

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2021, the University had unfunded commitments of $1,518,164, which are likely to be called through 2032. Details of these commitments are as follows:

		Unfunded commitments
Private equity	$	677,216
Real estate		349,234
Natural resources		192,334
Absolute return		3,750
Private debt		295,630
Total	$	1,518,164

(In thousands of dollars)

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

	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions or side pockets at June 30, 2021
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 2 years, some investments have a portion of capital held inside pockets with no redemptions permitted	$161.3 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 inside pockets with no redemptions permitted	$296.6 million
Separate accounts	N/A	Daily with notice periods of 1 to 90 days	None	None
Private debt:				
Drawdown partnerships	1 to 11 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	Lock-up provisions for up to 4 remaining years, some investments have a portion of	$121.8 million

(In thousands of dollars)

	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions or side pockets at June 30, 2021
		notice period of 90 days	capital held inside pockets with no redemptions permitted	
Direct investments	Indefinite	Redemptions permitted	N/A	$22.9 million
Real estate: Drawdown partnerships	1 to 13 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 15 years	Redemptions not permitted	N/A	N/A
Absolute return: Commingled funds	N/A	Monthly to triennial with notice periods of 30 to 90 days	Lock-up provisions for up to 2 remaining years, some investments have a portion of capital held inside pockets with no redemptions permitted	$118.9 million
Drawdown partnerships	1 year	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Daily to annual with notice periods of 1 to 90 days	Lock-up provisions for up to 2 remaining years, some investments have a portion of capital held inside pockets with no redemptions permitted	$365.9 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, 2021, 98%, 78%, 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, 2021:

		2021		
		Without donor restrictions	**With donor restrictions**	**Total**
Changes in the fair value of endowment investments:				
Investment return:				
Endowment yield (interest and dividends)	$	18,466	49,317	67,783
Net appreciation (realized and unrealized) on investments		741,158	1,796,321	2,537,479
Total investment return		759,624	1,845,638	2,605,262
Endowment payout		(147,534)	(281,885)	(429,419)
Investment return, net of payout		612,090	1,563,753	2,175,843
Other changes in endowment investments:				
Gifts and pledge payments received in cash		—	144,611	144,611
Transfers to create funds functioning as endowment		21,032	—	21,032
Other changes		12,986	13,712	26,698
Total other changes in endowment investments		34,018	158,323	192,341
Net change in endowment investments		646,108	1,722,076	2,368,184
Endowment investments at:				
Beginning of year		2,063,188	5,053,082	7,116,270
End of year	$	2,709,296	6,775,158	9,484,454
Investments by type of fund:				
Donor-restricted "true" endowment:				
Historical gift value	$	—	2,461,541	2,461,541
Appreciation		—	4,313,617	4,313,617
Board-designated "funds functioning as endowment"		2,709,296	—	2,709,296
Total – as above	$	2,709,296	6,775,158	9,484,454

(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, 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)

(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, 2021:

		2021		
		Without donor restrictions	**With donor restrictions**	**Total**
Changes in the fair value of endowment investments:				
Investment return:				
Endowment yield (interest and dividends)	$	9,246	679	9,925
Net appreciation (realized and unrealized) on investments		309,193	29,110	338,303
Total investment return		318,439	29,789	348,228
Endowment payout		(53,673)	(8,416)	(62,089)
Investment return, net of payout		264,766	21,373	286,139
Other changes in endowment investments:				
Gifts and pledge payments received in cash		157,589	18	157,607
Other changes		5,163	—	5,163
Total other changes in endowment investments		162,752	18	162,770
Net change in endowment investments		427,518	21,391	448,909
Endowment investments at:				
Beginning of year		911,642	93,299	1,004,941
End of year	$	1,339,160	114,690	1,453,850
Investments by type of fund:				
Donor-restricted “true” endowment:				
Historical gift value	$	—	18,930	18,930
Appreciation		—	95,760	95,760
Board-designated “funds functioning as endowment”		1,339,160	—	1,339,160
Total – as above	$	1,339,160	114,690	1,453,850

(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, 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)

(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, 2021:

	2021		
	Without donor restrictions	**With donor restrictions**	**Total**
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	$ 72	641	713
Net appreciation (realized and unrealized) on investments	2,950	26,512	29,462
Total investment return	3,022	27,153	30,175
Endowment payout	(484)	(4,110)	(4,594)
Investment return, net of payout	2,538	23,043	25,581
Other changes in endowment investments:			
Gifts and pledge payments received in cash	—	1,243	1,243
Other changes	—	428	428
Total other changes in endowment investments	—	1,671	1,671
Net change in endowment investments	2,538	24,714	27,252
Endowment investments at:			
Beginning of year	8,468	74,782	83,250
End of year	$ 11,006	99,496	110,502
Investments by type of fund:			
Donor-restricted “true” endowment:			
Historical gift value	$ —	59,685	59,685
Appreciation	—	39,811	39,811
Board-designated “funds functioning as endowment”	11,006	—	11,006
Total – as above	$ 11,006	99,496	110,502

(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, 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

(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.

(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, 2021 and 2020, funds with an original gift value of $8,096 and $892,725 were “underwater” by $374 and $25,137, respectively.

(f) Endowment Payout

Approximately 97% of the University, Medical Center, and MBL endowment is merged into one investment pool referred to as the Total Return Investment Pool (TRIP). The University utilizes the total return concept in allocating endowment income from TRIP. In accordance with the University’s return objective, between 4.5% and 5.5% of a 12 quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board with the objective of a 5.0% average payout over time, was 5.5% for the fiscal years ended June 30, 2021 and 2020. 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.

(In thousands of dollars)

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:

	2021				2020
	University	**Medical Center**	**MBL**	**Consolidated**	**Consolidated**
TRIP formula payout	$ 388,595	50,021	4,594	443,210	424,663
Payout from separately invested endowment	7,521	12,068	—	19,589	15,134
Special payouts:					
Alumni relations and development	25,617	—	—	25,617	24,631
Strategic initiatives	7,686	—	—	7,686	10,688
Total	$ 429,419	62,089	4,594	496,102	475,116

(7) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2021 and 2020 are shown as follows:

	2021			2020
	Receivable	**Allowance for doubtful accounts**	**Net receivable**	**Net receivable**
University:				
Patients	$ 15,626	(1,152)	14,474	14,817
Students:				
Loans	28,297	(1,500)	26,797	27,682
Tuition and fees	6,385	(2,380)	4,005	4,572
U.S. government	79,605	—	79,605	69,662
All other	88,333	(7,788)	80,545	96,028
Total University	218,246	(12,820)	205,426	212,761
Medical Center – patients	695,065	(257,924)	437,141	333,676
MBL	4,394	(35)	4,359	3,044
Total	$ 917,705	(270,779)	646,926	549,481

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.

(Continued)

(In thousands of dollars)

(8) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2021 and 2020 are shown as follows:

	2021				2020
	University	Medical Center	MBL	Consolidated	Consolidated
Land	$ 120,448	55,610	52,931	228,989	228,989
Buildings	4,707,853	1,941,958	109,438	6,759,249	6,537,666
Equipment	590,931	779,917	33,399	1,404,247	1,361,094
Books	444,417	—	—	444,417	429,192
Construction in progress	41,905	35,712	743	78,360	185,737
Subtotal	5,905,554	2,813,197	196,511	8,915,262	8,742,678
Less accumulated depreciation	(2,767,035)	(1,304,047)	(95,119)	(4,166,201)	(3,862,803)
Subtotal	3,138,519	1,509,150	101,392	4,749,061	4,879,875
Building held for sale	5,310	—	—	5,310	85
Total	$ 3,143,829	1,509,150	101,392	4,754,371	4,879,960

On August 25, 2021, the University sold the building held for sale for $22,571.

(9) Leases

The right-of-use asset and corresponding liability associated with future lease payments at June 30, 2021 and 2020 are shown below:

	2021			2020
	University	Medical Center	Consolidated	Consolidated
Operating lease:				
Right-of-use assets	$ 145,296	60,148	205,444	215,381
Finance lease:				
Land, buildings, equipment, and books, net	31,556	30,175	61,731	33,377
Total	$ 176,852	90,323	267,175	248,758
Operating lease liability	$ 158,372	60,148	218,520	219,390
Finance lease liability	31,031	31,384	62,415	36,987
Total	$ 189,403	91,532	280,935	256,377

(In thousands of dollars)

Other information related to leases as of June 30, 2021 and 2020 was as follows:

	2021		2020	
	University	**Medical Center**	**University**	**Medical Center**
Weighted average remaining lease term (years):				
Operating leases	11.1	12.7	11.4	9.1
Finance leases	61.5	13.4	—	11.2
Weighted average discount rate:				
Operating leases	4.0 %	2.2 %	4.0 %	2.1 %
Finance leases	4.0	3.5	—	3.3

(a) Lease Cost

Lease cost reported in supplies, services and other in the consolidated statements of activities amounted to $46,843 in fiscal 2021 as follows:

	2021			2020
	University	**Medical Center**	**Consolidated**	**Consolidated**
Finance:				
Amortization of right-of-use assets	$ 815	5,802	6,617	4,970
Interest on lease liability	1,260	1,146	2,406	1,114
Operating	22,004	10,814	32,818	35,074
Variable	4,867	1,117	5,984	3,047
Less sublease income	(198)	(784)	(982)	(2,639)
Total	$ 28,748	18,095	46,843	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:

Fiscal year		University			Medical Center			
		Operating	Finance	Total	Operating	Finance	Total	Consolidated
2022	$	20,824	2,612	23,436	6,316	4,340	10,656	34,092
2023		19,965	2,612	22,577	6,233	4,061	10,294	32,871
2024		19,126	2,586	21,712	5,290	3,426	8,716	30,428
2025		17,407	2,502	19,909	3,614	2,895	6,509	26,418
2026–2034		119,111	33,656	152,767	49,136	26,441	75,577	228,344
		196,433	43,968	240,401	70,589	41,163	111,752	352,153
Less present value discount		(38,061)	(12,937)	(50,998)	(9,683)	(9,779)	(19,462)	(70,460)
Lease liability	$	158,372	31,031	189,403	60,906	31,384	92,290	281,693

MBL does not have any lease activity as of June 30, 2021 and 2020.

(In thousands of dollars)

(10) Notes and Bonds Payable

Notes and bonds payable at June 30, 2021 and 2020 are shown as follows:

	Fiscal year maturity	Interest rate	2021	2020
University:				
Fixed rate:				
Illinois Finance Authority (IFA)	2039–2054	3.2–5.0%	$ 1,523,556	1,844,594
Taxable bonds and loans	2031–2054	2.4–5.2	2,524,227	1,880,995
Unamortized premium net of issuance costs			132,940	159,960
Total fixed rate			4,180,723	3,885,549
Variable rate:				
Illinois Educational Facilities Authority (IEFA)	2026–2037	0.5–1.9	29,673	31,350
IFA	2035	0.7	63,553	66,876
Taxable commercial paper ($200,000 available)	2022	0.0-0.1	50,000	25,000
Bank lines of credit ($400,000 available)	2022	0.1	—	167,969
Total variable rate			143,226	291,195
Total University			4,323,949	4,176,744
Medical Center:				
Fixed rate:				
IFA	2026–2045	2.5–5.0	691,770	707,205
Taxable bonds and loans	2042–2047	2.7–4.4	90,645	93,645
New market tax credit bonds (NMTC)	2024–2047	1.0–1.8	41,902	42,176
Unamortized premium and issuance costs			10,324	12,817
Total fixed rate			834,641	855,843
Variable rate:				
IFA	2050	2.5	66,963	68,403
IEFA	2038	1.1	59,028	62,590
Bank lines of credit ($100,000 available)	2022	—	—	—
Total variable rate			125,991	130,993
Total Medical Center			960,632	986,836
MBL:				
Fixed rate:				
Massachusetts Development Finance Authority	2036	—	23,930	24,840
Unamortized issuance cost			(122)	(130)
Total MBL			23,808	24,710
Total notes and bonds payable			$ 5,308,389	5,188,290

(Continued)

(In thousands of dollars)

As of June 30, 2021, 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 $163,976, $325,000, and $23,808, respectively. 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.

(a) Fiscal 2021 Transactions

During fiscal year 2021, the University issued $650,495 of fixed rate taxable bonds, proceeds from which were used to 1) advance refund $299,145 of IFA fixed rate bonds, 2) pay down the bank operating lines of credit, and 3) provide available funds for operating purposes.

During fiscal year 2021, the Medical Center issued fixed rate bonds in the amount of $47,270. The Series 2020A bonds were sold to JPMorgan Chase Bank. 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.

(b) Interest Rate Swaps

On June 30, 2021 and 2020, the fair value of the interest rate swap agreements was included in accounts payable and accrued liabilities on the accompanying balance sheets and amounted to $203,189 and $318,305, respectively.

		2021	2020
University	$	51,645	118,692
Medical Center		147,362	193,907
MBL		4,182	5,706
Total	$	203,189	318,305

Additionally, at June 30, 2021, the University maintains two off market rate swap agreements and three swaptions with a fair market value of $11,629 that are recorded in prepaid expenses and other assets.

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 and with Mizuho when the liability of those swaps each exceed $30,000. Upon further downgrade, the collateral requirements increase. As a result, $6,120 and $55,100 was held as collateral at June 30, 2021 and June 30, 2020, respectively.

(c) Debt Payments

Principal payments required in each of the five years ending June 30, 2022 through 2026 for the University notes and bonds are $46,729, $73,720, $68,846, $96,499 and $47,755, respectively.

Principal payments required in each of the five years ending June 30, 2022 through 2026 for the Medical Center notes and bonds are $22,875, $23,598, $23,303, $25,579, and $26,490, respectively.

Principal payments required in each of the five years ending June 30, 2022 through 2026 for MBL's notes and bonds are $945, $980, $1,020, $1,060 and $1,105, 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 $307,202, $450,991, and $24,153, 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 $150,000, $384,028 and $24,153, respectively, which support variable rate debt in the event of a failed remarketing.

(In thousands of dollars)

(11) Pledges

Pledges receivable at June 30, 2021 and 2020 are shown as follows:

	2021				2020
	University	**Medical Center**	**MBL**	**Consolidated**	**Consolidated**
Unconditional promises expected to be collected in:					
Less than one year	$ 276,606	2,289	1,576	280,471	262,917
One year to five years	609,629	6,228	3,590	619,447	609,370
More than five years	1,369,393	—	—	1,369,393	1,430,217
	2,255,628	8,517	5,166	2,269,311	2,302,504
Less:					
Valuation allowance	(938,747)	(520)	(558)	(939,825)	(994,667)
Total	$ 1,316,881	7,997	4,608	1,329,486	1,307,837

The University's five largest pledges comprise approximately 96 percent of pledges receivable at June 30, 2021. Included in this amount is an $846 million pledge receivable, net of a current year pledge payments 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, 2021, the University has received $100,158 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 was $10,000 per claim and unlimited in the aggregate for the fiscal year ended June 30, 2021 and was $5,000 per claim and unlimited in the aggregate for the fiscal year ended June 30, 2020. Claims in excess of $10,000 are subject to an additional self insurance retention limited to $7,500 per claim and $15,000 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self insurance costs. The University and Medical Center also maintain a self insurance program for workers' compensation and certain other liability claims.

Under the medical malpractice self insurance program, the University and Medical Center make annual contributions to a related trust fund at an actuarially determined rate that is intended to provide adequate funding of the self insurance liability over a period of years. Actual settlements of medical malpractice claims may be more or less than the liability estimated by the University.

(Continued)

(In thousands of dollars)

The medical malpractice self insurance liability is the estimated present value of self insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self insurance claims would be approximately $24,038 higher than the amount recorded in the consolidated financial statements at June 30, 2021. The interest rate assumed in determining the present value was 2.75%. The University recorded nonoperating actuarial adjustments of $64,901 and $9,183 during the years ended June 30, 2021 and 2020, 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, 2021 and 2020 is presented as follows:

		2021			2020
		University	Medical Center	Consolidated	Consolidated
Medical malpractice	$	213,787	78,042	291,829	249,693
Workers' compensation		6,115	8,604	14,719	16,451
Others		7,253	—	7,253	6,445
Total	$	227,155	86,646	313,801	272,589

(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.

(Continued)

(In thousands of dollars)

The University's retiree health plan was 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 prior year increase in the accumulated benefit obligation of $22,390.

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	
		2021	2020	2021	2020
Change in benefit obligation:					
Benefit obligation at beginning of year	$	1,057,892	946,250	171,542	173,840
Service cost		1,834	1,686	7,314	8,049
Interest cost		29,530	33,369	4,793	6,352
Benefits paid		(62,694)	(56,283)	(6,022)	(5,966)
Plan amendment		—	—	—	22,390
Actuarial (gain) loss, net		(19,705)	132,870	(12,274)	(33,123)
Benefit obligation at end of year		1,006,857	1,057,892	165,353	171,542

		Defined benefit pension plans		Other postretirement benefit plans	
		2021	2020	2021	2020
Change in fair value of plan assets:					
Fair value of plan assets at beginning of year	$	786,782	763,789	93,540	83,630
Actual return on plan assets		141,892	71,499	18,436	8,728
Employer contributions		5,392	7,777	6,022	7,148
Benefits paid		(62,694)	(56,283)	(6,022)	(5,966)
Fair value of plan assets at end of year		871,372	786,782	111,976	93,540
Funded status – liability	$	135,485	271,110	53,377	78,002

The accumulated benefit obligation for the defined benefit pension plans was $1,001,077 and $1,052,014 at June 30, 2021 and 2020, respectively.

(In thousands of dollars)

(c) Components of Net Periodic Benefit Cost

		Defined benefit pension plans		Other postretirement benefit plans	
		2021	2020	2021	2020
Operating – service cost	$	1,834	1,686	7,320	8,060
Nonoperating:					
Interest cost		29,530	33,369	4,819	6,403
Expected return on plan assets		(43,366)	(45,207)	(6,065)	(5,608)
Amortization of prior service benefit		17	(95)	(21,394)	(22,539)
Amortization of actuarial loss		31,028	21,114	2,133	5,652
Settlements		7,673	11,524	—	—
Total nonoperating		24,882	20,705	(20,507)	(16,092)
Net periodic benefit cost	$	26,716	22,391	(13,187)	(8,032)
Amounts included in the consolidated statements of activities:					
University	$	14,492	12,975	(12,903)	(7,720)
Medical Center		12,224	9,416	—	—
MBL		—	—	(284)	(312)
Total	$	26,716	22,391	(13,187)	(8,032)

(d) 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	
	2021	2020	2021	2020
Discount rate	3.2 %	2.9 %	3.1 %	3.1 %
Expected return on plan assets	6.0	6.3	6.0	6.3
Rate of compensation increase	3.5	3.5	3.7	3.8
Healthcare cost trend rates:				
Next two fiscal years			8.1–8.7%	8.1–8.7%
Next seven fiscal years			5.4–7.6%	5.3–7.6%
Thereafter			4.5–5.4%	4.5–5.2%

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:

		2021	2020
Effect on total service cost and interest cost:			
One-percentage-point increase	$	1,967	2,459
One-percentage-point decrease		(1,494)	(1,848)
Effect on year-end postretirement benefit obligation:			
One-percentage-point increase	$	23,626	24,938
One-percentage-point decrease		(18,613)	(19,505)

(e) 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	
		2021	2020	2021	2020
Domestic public equities	$	26 %	26 %	50 %	49 %
International public equities		21	24	—	—
Fixed income		53	50	50	51
	$	100 %	100 %	100 %	100 %

As of June 30, 2021, 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, 2021.

(f) Contributions

The University, combined with the Medical Center, expects to contribute approximately $12,000 to the defined benefit pension plans in fiscal year 2022.

(In thousands of dollars)

(g) 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
2022	$	75,338	5,345
2023		53,519	6,023
2024		53,414	7,620
2025		52,974	8,482
2026		54,581	9,151
2027–2031		280,844	53,122

(h) 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, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of $5,947. As of June 30, 2021 the plan was annuitized and therefore, there was no outstanding liability.

(i) Defined Contribution Pension Plan

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to $14,518 in fiscal year 2021 and $82,694 in fiscal year 2020 for the University and $13,200 in fiscal year 2021 and $35,800 in fiscal year 2020 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, 2021 consist of the following:

	2021			
	Academic and research	Healthcare service	Administrative support	Total
Operating expenses:				
Compensation	$ 1,519,254	1,017,375	325,108	2,861,737
Utilities, alterations, and repairs	40,318	38,395	14,580	93,293
Depreciation	186,867	131,844	28,882	347,593
Interest	112,516	36,242	53,712	202,470
Supplies, services, and other	373,333	1,099,069	164,007	1,636,409
Operating expenses	$ 2,232,288	2,322,925	586,289	5,141,502
Nonoperating net periodic benefit cost other than service cost				4,375
Total				$ 5,145,877

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	1,009,115	168,562	1,585,144
Operating expenses	$ 2,289,907	2,187,527	564,330	5,041,764
Nonoperating net periodic benefit cost other than service cost				4,613
Total				$ 5,046,377

(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, 2020 and 2019 was $267,541 and $236,958, respectively. Net assets at December 31, 2020 and 2019 were $75,620 and $54,179, 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 $1,025,419 for ANL and $573,211 for Fermilab in fiscal year 2021, and $917,928 for ANL and $488,615 for Fermilab in fiscal year 2020 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, 2021

(In thousands of dollars)

Assets		**University**	**Medical Center**	**MBL**	**2021 Consolidated**
Cash and cash equivalents	$	194,731	184,639	2,571	381,941
Notes and accounts receivable, net		205,426	437,141	4,359	646,926
Prepaid expenses and other assets		176,767	215,189	4,687	396,643
Right-of-use assets – operating leases		145,296	60,148	—	205,444
Pledges receivable, net		1,316,881	7,997	4,608	1,329,486
Investments		10,645,520	1,969,722	126,462	12,741,704
Land, buildings, equipment, and books, net		3,143,829	1,509,150	101,392	4,754,371
Total assets	$	15,828,450	4,383,986	244,079	20,456,515
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued liabilities	$	576,692	917,200	8,781	1,502,673
Deferred revenue		156,544	949	6,832	164,325
Assets held in custody for others		244,090	—	—	244,090
Self-insurance liability		227,155	86,646	—	313,801
Pension and other postretirement benefit obligations		188,862	—	—	188,862
Asset retirement obligation		40,102	11,723	—	51,825
Lease liability		189,403	91,532	—	280,935
Notes and bonds payable		4,323,949	960,632	23,808	5,308,389
Refundable U.S. government student loan funds		16,231	—	—	16,231
Total liabilities		5,963,028	2,068,682	39,421	8,071,131
Net assets:					
Without donor restrictions		1,596,739	2,169,780	90,259	3,856,778
With donor restrictions		8,268,683	145,524	114,399	8,528,606
Total net assets		9,865,422	2,315,304	204,658	12,385,384
Total liabilities and net assets	$	15,828,450	4,383,986	244,079	20,456,515

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidating Statement of Activities

Year ended June 30, 2021

(In thousands of dollars)

	University	Medical Center	MBL	Total	Eliminations	2021 Consolidated
Changes in net assets without donor restrictions:						
Operating:						
Revenue:						
Tuition and fees, net of student aid	$ 526,091	—	118	526,209	—	526,209
Government grants and contracts	434,177	—	11,727	445,904	—	445,904
Private gifts, grants, and contracts	255,417	88	5,298	260,803	—	260,803
Endowment payout	428,570	62,089	4,594	495,253	—	495,253
Patient service	327,918	2,331,509	—	2,659,427	(121,523)	2,537,904
Auxiliaries	134,181	—	962	135,143	—	135,143
Other income	258,994	383,881	465	643,340	—	643,340
Net assets released from restrictions	159,177	8,358	2,423	169,958	—	169,958
Total operating revenue	2,524,525	2,785,925	25,587	5,336,037	(121,523)	5,214,514
Expenses:						
Compensation:						
Academic salaries	705,833	—	7,615	713,448	—	713,448
Staff salaries	723,758	934,104	9,650	1,667,512	—	1,667,512
Benefits	274,389	200,101	6,287	480,777	—	480,777
Total compensation	1,703,980	1,134,205	23,552	2,861,737	—	2,861,737
Other operating expenses:						
Utilities, alterations, and repairs	49,559	41,576	2,158	93,293	—	93,293
Depreciation	210,362	132,707	4,524	347,593	—	347,593
Interest	161,916	39,743	811	202,470	—	202,470
Supplies, services, and other	426,551	1,321,732	9,649	1,757,932	(121,523)	1,636,409
Total other operating expenses	848,388	1,535,758	17,142	2,401,288	(121,523)	2,279,765
Total operating expenses	2,552,368	2,669,963	40,694	5,263,025	(121,523)	5,141,502
Excess (deficiency) of operating revenue over expenses	$ (27,843)	115,962	(15,107)	73,012	—	73,012

(Continued)

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidating Statement of Activities

Year ended June 30, 2021

(In thousands of dollars)

		University	Medical Center	MBL	2021 Consolidated
Changes in net assets without donor restrictions:					
Nonoperating:					
Investment gains	$	612,090	318,795	2,536	933,421
Net periodic benefit cost (credit) other than service cost		7,559	(12,224)	290	(4,375)
Other pension and postretirement benefit changes		162,648	15,005	728	178,381
Change in value of derivative instruments		76,671	46,545	1,524	124,740
Gain/(loss) on debt refinancing		(23,218)	832	—	(22,386)
Other, net		32,083	772	13,199	46,054
Net assets released from restrictions		15,045	—	487	15,532
Nonoperating changes in net assets without donor restrictions		882,878	369,725	18,764	1,271,367
Increase in net assets without donor restrictions		855,035	485,687	3,657	1,344,379
Changes in net assets with donor restrictions:					
Private gifts		350,014	12,513	7,413	369,940
Endowment payout		849	—	—	849
Investment gains		1,563,753	29,809	23,054	1,616,616
Other, net		15,912	(125)	2	15,789
Net assets released from restrictions		(174,222)	(8,358)	(2,909)	(185,489)
Increase in net assets with donor restrictions		1,756,306	33,839	27,560	1,817,705
Increase in net assets		2,611,341	519,526	31,217	3,162,084
Net assets at beginning of year		7,254,081	1,795,778	173,441	9,223,300
Net assets at end of year	$	9,865,422	2,315,304	204,658	12,385,384

See accompanying notes to consolidated financial statements.

Schedule 3

THE UNIVERSITY OF CHICAGO

Consolidating Statement of Cash Flows

Year ended June 30, 2021

(In thousands of dollars)

		University	Medical Center	MBL	2021 Consolidated
Cash flows from operating activities:					
Increase in net assets	$	2,611,341	519,526	31,217	3,162,084
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:					
Depreciation		210,362	132,707	4,524	347,593
Change in value of derivative instruments		(76,671)	(46,545)	(1,524)	(124,740)
Loss on disposal of land, buildings, equipment, and books		4,682	235	5	4,922
Net (gain) on investments		(2,537,479)	(399,589)	(29,468)	(2,966,536)
(Gain) loss on debt refinancing		23,218	(832)	—	22,386
Reduction in the carrying amount of the right-of-use assets – operating leases		20,080	(10,143)	—	9,937
Private gifts and grants restricted for long-term investment		(350,014)	(18,945)	(322)	(369,281)
Other nonoperating changes		190,279	8,358	(13,018)	185,619
Pension and postretirement benefit changes		(170,207)	(2,781)	(1,012)	(174,000)
Changes in operating assets and liabilities:					
Notes and accounts receivable		7,335	(103,465)	(1,310)	(97,440)
Prepaid expenses and other assets		(13,545)	(17,016)	(55)	(30,616)
Accounts payable and other liabilities		171,143	(54,954)	4,159	120,348
Lease liability		21,362	12,653	—	34,015
Self-insurance liability		27,878	13,334	—	41,212
Total adjustments		(2,471,577)	(486,983)	(38,021)	(2,996,581)
Net cash provided by (used in) operating activities		139,764	32,543	(6,804)	165,503
Cash flows from investing activities:					
Purchase of investments		(1,921,234)	(944,485)	(9,939)	(2,875,658)
Proceeds from sale of investments		1,673,636	637,099	6,909	2,317,644
Proceeds from sale of property		257	—	—	257
Acquisition of land, buildings, equipment, and books		(145,402)	(79,722)	(2,315)	(227,439)
Net cash used in investing activities		(392,743)	(387,108)	(5,345)	(785,196)
Cash flows from financing activities:					
Proceeds from issuance of debt instruments		1,058,410	47,270	—	1,105,680
Principal payments on debt instruments		(911,205)	(72,642)	(902)	(984,749)
Payment of finance lease liability		(1,344)	(8,113)	—	(9,457)
Proceeds from private gifts and grants restricted for long-term investment		174,206	—	322	174,528
Other nonoperating changes		(54,340)	33,964	13,024	(7,352)
Net cash provided by (used in) financing activities		265,727	479	12,444	278,650
Increase (decrease) in cash and cash equivalents		12,748	(354,086)	295	(341,043)
Cash and cash equivalents at:					
Beginning of year		181,983	538,725	2,276	722,984
End of year	$	194,731	184,639	2,571	381,941
Supplemental disclosures of cash flow information:					
Cash paid for interest	$	167,115	38,835	810	206,760
Change in construction payable		(4,278)	(4,022)	210	(8,090)
Cash paid for amounts included in the measurement of lease liabilities:					
Operating cash flows from operating leases		18,036	10,814	—	28,850
Operating cash flows from finance leases		1,260	1,146	—	2,406
Financing cash flows from finance leases		1,344	8,113	—	9,457
Right of use assets obtained in exchange for new lease obligations:					
Finance leases		32,371	2,202	—	34,573
Operating leases		(4,532)	14,318	—	9,786

See accompanying notes to consolidated financial statements.