



The University of Chicago
2010–2011
Financial Statements
and Supplemental
University Information

THE UNIVERSITY OF CHICAGO

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THE UNIVERSITY OF CHICAGO

Management Responsibility for Consolidated Financial Statements

The management of The University of Chicago (University) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 3 to 45, have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

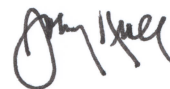
The consolidated financial statements have been audited by the independent accounting firm KPMG LLP, (KPMG), which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. KPMG did not audit the financial statements of The University of Chicago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

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

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



Nimalan Chinniah
Vice President for Administration
and Chief Financial Officer



John R. Kroll
Associate Vice President for
Finance



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

Independent Auditors' Report

The Board of Trustees
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago (the University) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 20% and 18% and total revenues constituting 32% and 35% of the related consolidated totals in 2011 and 2010, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

KPMG LLP

October 5, 2011

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2011 and 2010

(In thousands of dollars)

Assets	2011	2010
Cash and cash equivalents	\$ 202,487	123,758
Notes and accounts receivable	292,484	302,738
Prepaid expenses and other assets	115,001	118,645
Pledges receivable	368,642	387,163
Investments	7,480,714	6,482,759
Land, buildings, equipment, and books	3,247,952	2,954,669
Total assets	\$ 11,707,280	10,369,732
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 552,947	564,737
Deferred revenue	88,711	85,365
Assets held in custody for others	61,279	55,269
Self-insurance liability	262,726	254,208
Pension and other postretirement benefit obligations	485,729	514,277
Asset retirement obligation	64,522	65,220
Notes and bonds payable	3,022,873	2,714,911
Refundable U.S. government student loan funds	37,804	37,511
Total liabilities	4,576,591	4,291,498
Net assets:		
Unrestricted	2,553,311	2,042,652
Temporarily restricted	3,172,866	2,741,835
Permanently restricted	1,404,512	1,293,747
Total net assets	7,130,689	6,078,234
Total liabilities and net assets	\$ 11,707,280	10,369,732

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2011 and 2010

(In thousands of dollars)

	2011	2010
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 607,644	573,724
Less student aid	(273,917)	(256,040)
Tuition and fees – net	333,727	317,684
Government grants and contracts	417,882	394,394
Private gifts, grants, and contracts	146,615	137,823
Endowment payout	376,701	346,165
Earnings on other investments	3,243	1,824
Patient care	1,314,096	1,266,499
Auxiliaries	203,480	199,823
Other income	199,897	184,887
Net assets released from restrictions	60,586	69,163
Total operating revenue	3,056,227	2,918,262
Expenses:		
Compensation:		
Academic salaries	443,405	426,017
Staff salaries	849,100	800,062
Benefits	368,679	331,637
Total compensation	1,661,184	1,557,716
Other operating expenses:		
Utilities, alterations, and repairs	72,373	70,928
Depreciation	204,338	193,062
Interest	84,150	44,964
Supplies, services, and other	855,651	832,314
Insurance	51,452	61,532
Total other operating expenses	1,267,964	1,202,800
Total operating expenses	2,929,148	2,760,516
Excess of operating revenue over expenses	127,079	157,746

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Consolidated Statements of Activities

Years ended June 30, 2011 and 2010

(In thousands of dollars)

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains	\$ 270,940	105,316
Postretirement benefit changes other than net periodic benefit cost	9,052	(140,065)
Others, net	<u>103,588</u>	<u>55,444</u>
Change in unrestricted net assets from nonoperating activities	<u>383,580</u>	<u>20,695</u>
Increase in unrestricted net assets	<u>510,659</u>	<u>178,441</u>
Changes in temporarily restricted net assets:		
Private gifts	65,304	67,418
Investment gains	471,287	282,318
Others, net	(44,974)	(93,522)
Net assets released from restrictions	<u>(60,586)</u>	<u>(69,163)</u>
Increase in temporarily restricted net assets	<u>431,031</u>	<u>187,051</u>
Changes in permanently restricted net assets:		
Private gifts	75,880	39,246
Endowment payout	5,201	3,861
Investment gains	9,456	6,193
Others, net	<u>20,228</u>	<u>44,308</u>
Increase in permanently restricted net assets	<u>110,765</u>	<u>93,608</u>
Increase in net assets	1,052,455	459,100
Net assets at beginning of year	<u>6,078,234</u>	<u>5,619,134</u>
Net assets at end of year	<u>\$ 7,130,689</u>	<u>6,078,234</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Years ended June 30, 2011 and 2010
(In thousands of dollars)

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 1,052,455	459,100
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	204,338	193,062
Loss on disposal of land, buildings, equipment, and books	15,845	4,733
Net gain on investments	(1,060,317)	(713,615)
Private gifts and grants restricted for long-term investment	(141,184)	(106,597)
Other nonoperating changes	36,812	100,818
Postretirement benefit changes other than net periodic benefit cost	(9,053)	140,065
Changes in assets and liabilities:		
Notes and accounts receivable	(5,545)	(7,760)
Prepaid expenses and other assets	3,796	5,778
Accounts payable and other liabilities	(16,615)	1,052
Self-insurance liability	8,518	25,739
Total adjustments	(963,405)	(356,725)
Net cash provided by operating activities	89,050	102,375
Cash flows from investing activities:		
Purchase of investments	(2,232,550)	(2,521,911)
Proceeds from sale of investments	2,317,929	2,480,447
Acquisition of land, buildings, equipment, and books	(513,611)	(425,489)
Loans disbursed	(5,908)	(4,229)
Principal collected on loans	21,707	29,396
Net cash used in investing activities	(412,433)	(441,786)
Cash flows from financing activities:		
Proceeds from issuance of notes and bonds payable	1,057,539	688,053
Principal payments on notes and bonds payable	(750,421)	(386,687)
Proceeds from private gifts and grants restricted for long-term investment	110,573	84,739
Other nonoperating changes	(15,579)	(25,136)
Net cash provided by financing activities	402,112	360,969
Increase in cash and cash equivalents	78,729	21,558
Cash and cash equivalents at:		
Beginning of year	123,758	102,200
End of year	\$ 202,487	123,758
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 96,014	77,798

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

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

(b) Basis of Presentation

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

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

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

- Unrestricted – net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University – instruction, conduct of sponsored research, and provision of healthcare services. In addition to these exchange transactions, changes in this category of net assets include investment returns on unrestricted “funds functioning as endowment” funds, actuarial adjustments to self-insurance liabilities, and certain types of philanthropic support. Such philanthropic support includes unrestricted gifts, including those designated by the Board to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

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

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

<u>Detail of net assets</u>	<u>2011</u>		<u>2010</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
University:				
Operating	\$ 8,604	—	11,025	—
Pledges	308,178	46,439	320,461	56,788
Student loans	—	18,601	—	18,078
Endowment	2,574,275	1,299,857	2,144,096	1,190,234
Annuity and life income	17,337	33,503	13,092	22,544
Net investment in physical properties	170,533	—	175,785	—
Subtotal	<u>3,078,927</u>	<u>1,398,400</u>	<u>2,664,459</u>	<u>1,287,644</u>
Medical center:				
Operating	12,087	—	8,660	—
Pledges	13,995	40	9,872	42
Endowment	67,857	6,072	58,844	6,061
Subtotal	<u>93,939</u>	<u>6,112</u>	<u>77,376</u>	<u>6,103</u>
Total	<u>\$ 3,172,866</u>	<u>1,404,512</u>	<u>2,741,835</u>	<u>1,293,747</u>

(c) Operations

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing unrestricted net assets except those items associated with long-term investment, actuarial

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

adjustments to self-insurance liabilities, changes in postretirement benefit obligations, changes in the fair value of the interest rate swap agreements, and other infrequent gains and losses.

(d) Tuition and Fees

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

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2011 and 2010 are \$46,169 and \$46,782, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2011 and 2010 consist of the following:

	<u>2011</u>			<u>2010</u> <u>Consolidated</u>
	<u>University</u>	<u>Medical Center</u>	<u>Consolidated</u>	
Private gifts:				
Unrestricted as to use	\$ 28,797	1,018	29,815	18,991
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	51,552	—	51,552	48,653
Private grants and contracts	65,248	—	65,248	70,179
Total	<u>\$ 145,597</u>	<u>1,018</u>	<u>146,615</u>	<u>137,823</u>

(f) Patient Care

Net patient service revenue reflects the estimated net realizable amounts due from third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments

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June 30, 2011 and 2010

(In thousands of dollars)

under these agreements and programs are based on specific amounts per case or contracted prices. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

(g) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2011 and 2010, the University and Medical Center capitalized interest related to construction in progress of \$12,883 and \$37,551, and \$7,729 and \$4,472, respectively.

(h) Cash Equivalents

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

(i) Investments

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds such as private equity, real 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, 2011 and 2010, the University had no plans to sell investments at amounts different from NAV.

The University does not engage directly in unhedged speculative investments; however, the Board of Trustees has authorized derivative investments to adjust market exposure within asset class ranges, hedge nondollar investments and currencies, and provide for defensive portfolio strategies. During fiscal 2010 and as of June 30, 2010, the University had no directly held derivative investments.

The following table sets forth the gross and net notional values and the University's gain (loss) related to derivative activities as of June 30, 2011 and for the fiscal year then ended:

	<u>Gross notional</u>	<u>Net notional</u>	<u>Gain (loss)</u>
Interest rate futures contracts	\$ —	—	(12)
Currency futures contracts	(45,227)	—	(256)
Equity futures contracts	<u>(123,903)</u>	<u>(123,903)</u>	<u>273</u>
Total	<u>\$ (169,130)</u>	<u>(123,903)</u>	<u>5</u>

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

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

(j) Land, Buildings, Equipment, and Books

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

(k) Asset Retirement Obligation

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

(l) Split-Interest Agreements

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

At June 30, 2011 and 2010, the University had a liability of \$49,992 and \$35,986 associated with its charitable remainder trust and gift annuities and deferred revenue of \$5,638 and \$4,203 associated with its pooled income agreements, respectively.

(m) Income Taxes

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except to the extent the University has unrelated business income, is exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2011 and 2010. The University has no uncertain tax positions, which the University considers to be material.

(n) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date,

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June 30, 2011 and 2010

(In thousands of dollars)

and the reporting of revenue, expenses, gains, and losses during the period. Actual results may differ from those estimates.

(o) *Recent Accounting Pronouncements*

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

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

(p) *Subsequent Events*

The University has performed an evaluation of subsequent events through October 5, 2011, which is the date the financial statements were issued.

(2) The University of Chicago Medical Center

(a) *Organization*

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

(b) *Agreements with the University*

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

(c) *Basis of Presentation*

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

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

\$45,300 in fiscal year 2011 and \$35,461 in fiscal year 2010 has been recorded as a reduction of patient care revenue, (2) investment gains used for operations of \$36,454 in fiscal year 2011 and \$30,977 in fiscal year 2010 have been recorded as unrestricted operating revenue, (3) cash contributions in excess of pension expense of \$19,192 in fiscal year 2011 and \$18,256 in fiscal year 2010 have been reclassified from benefits expense, and (4) transfers to the University of \$23,000 in fiscal year 2011 and 2010 have been recorded as a reduction of other income.

(3) Investments

Investments at June 30, 2011 and 2010 comprise the following:

	2011			2010
	University	Medical Center	Consolidated	Consolidated
Cash equivalents	\$ 95,053	22,926	117,979	89,448
Global public equities (primarily international)	1,136,739	248,862	1,385,601	922,291
Private debt	266,652	23,717	290,369	425,810
Private equity:				
U.S. Venture Capital	319,803	35,108	354,911	310,732
U.S. Corporate Finance	358,502	31,918	390,420	402,248
International	456,912	41,370	498,282	348,025
Real estate	650,360	48,317	698,677	507,730
Natural resources	619,341	55,127	674,468	599,775
Absolute return:				
Equity-Oriented	272,983	24,281	297,264	262,927
Global Macro/Relative Value	155,988	13,874	169,862	160,318
Multi-Strategy	582,487	51,829	634,316	728,905
Credit-Oriented	81,159	7,180	88,339	73,045
Fixed income:				
U.S. Treasuries, including TIPS	427,583	151,341	578,924	477,583
Other fixed income (primarily Credit Funds)	918,702	129,371	1,048,073	871,380
Funds in Trust	103,229	150,000	253,229	302,542
Total	<u>\$ 6,445,493</u>	<u>1,035,221</u>	<u>7,480,714</u>	<u>6,482,759</u>

(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 of Trustee's Investment Committee, which oversees the University's investment program in accordance with established guidelines.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(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. Treasury money market accounts.

Global public equity investments (primarily international) consist of separate accounts, commingled funds with liquidity ranging from daily to monthly, and limited partnerships. Securities held in separate accounts and daily traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly liquidity are valued based on independently determined NAV. Limited partnership interests in equity-oriented funds are valued based upon NAV provided by external fund managers.

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 not readily determinable market value. In these cases, market value is determined by external managers based on a combination of discounted cash flow analysis, industry comparables, and outside appraisals. Where private equity, real estate, and natural resources managers hold publicly traded securities, these securities are generally valued based on market prices. The value of the limited partnership interests are held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used by managers to assess the NAV of these external investments vary by asset class. The University monitors the valuation methodologies and practices of managers.

The absolute return portfolio is comprised of investments of limited partnership interests in hedge funds and drawdown private equity style partnerships whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. The majority of the underlying holdings are marketable securities. The remainder of the underlying holdings is held in marketable securities which trade infrequently or in private investments which are valued by the manager on the basis of an appraised value, discounted cash flow, industry comparables or some other method. Most hedge funds which hold illiquid investments designate them in special side pockets, which are subject to special restrictions on redemption.

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

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

The University believes that the carrying amount of its investments is a reasonable estimate of fair value as of June 30, 2011 and 2010. 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.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(c) ***Fair Value of Financial Instruments***

Fair value is defined as the price that the University would receive upon selling an investment 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.

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(In thousands of dollars)

Following is a summary of the inputs used as of June 30, 2011 in valuing the University's investments carried at fair value:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2011 Consolidated total
Cash equivalents	\$ 117,979	—	—	117,979
Global public equities (primarily International)	664,302	237,594	483,705	1,385,601
Private debt	—	—	290,369	290,369
Private equity:				
U.S. Venture Capital	—	—	354,911	354,911
U.S. Corporate Finance	—	—	390,420	390,420
International	—	—	498,282	498,282
Real estate	11,536	—	687,141	698,677
Natural resources	—	—	674,468	674,468
Absolute return:				
Equity-Oriented	50,000	34,630	212,634	297,264
Global Macro/Relative Value	—	53,247	116,615	169,862
Multi-Strategy	—	—	634,316	634,316
Credit-Oriented	—	—	88,339	88,339
Fixed income:				
U.S. Treasuries, including TIPS	482,448	96,476	—	578,924
Other fixed income (primarily Credit Funds)	852,249	—	195,824	1,048,073
Funds in Trust	251,229	—	2,000	253,229
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments at fair value as of June 30, 2011	\$ <u>2,429,743</u>	<u>421,947</u>	<u>4,629,024</u>	<u>7,480,714</u>

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June 30, 2011 and 2010

(In thousands of dollars)

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

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2010 Consolidated total
Cash equivalents	\$ 89,448	—	—	89,448
Global public equities (primarily International)	336,131	178,645	407,515	922,291
Private debt	4,209	—	421,601	425,810
Private equity:				
U.S. Venture Capital	—	—	310,732	310,732
U.S. Corporate Finance	—	—	402,248	402,248
International	—	—	348,025	348,025
Real estate	7,252	—	500,478	507,730
Natural resources	—	—	599,775	599,775
Absolute return:				
Equity-Oriented	—	102,199	160,728	262,927
Global Macro/Relative Value	—	53,373	106,945	160,318
Multi-Strategy	—	6,156	722,749	728,905
Credit-Oriented	—	—	73,045	73,045
Fixed income:				
U.S. Treasuries, including TIPS	477,583	—	—	477,583
Other fixed income (primarily Credit Funds)	575,827	101,450	194,103	871,380
Funds in Trust	300,542	—	2,000	302,542
Total investments at fair value as of June 30, 2010	\$ 1,790,992	441,823	4,249,944	6,482,759

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

Changes to the reported amounts of investments measured at fair value using unobservable inputs (Level 3) for the years ended June 30, 2011 and 2010 are as follows:

		Equities and fixed income	Alternative investments			2011 Consolidated total	
			Private equity	Private debt	Real assets		Absolute return
Balance at June 30, 2010	\$	601,618	1,061,005	421,601	1,102,253	1,063,467	4,249,944
Total net realized gains or losses		138	163,100	39,505	123,686	4,951	331,380
Total net unrealized gains or losses		129,986	12,267	3,689	15,961	149,808	311,711
Purchases, issuances, and settlements		74,149	132,605	52,548	214,815	20,000	494,117
Proceeds from sales, redemptions, and distributions		(126,362)	(125,364)	(226,974)	(92,466)	(262,459)	(833,625)
Transfer in (out) of Level III		—	—	—	(640)	76,137	75,497
Balance at June 30, 2011	\$	<u>679,529</u>	<u>1,243,613</u>	<u>290,369</u>	<u>1,363,609</u>	<u>1,051,904</u>	<u>4,629,024</u>

		Equities and fixed income	Alternative investments			2010 Consolidated total	
			Private equity	Private debt	Real assets		Absolute return
Balance at June 30, 2009	\$	526,187	918,160	340,197	952,477	1,244,927	3,981,948
Total net realized gains or losses		20,811	72,652	14,368	33,786	3,252	144,869
Total net unrealized gains or losses		110,275	(9,671)	104,955	(56,245)	152,527	301,841
Purchases, issuances, and settlements		2,844	137,536	91,037	212,751	25	444,193
Proceeds from sales, redemptions, and distributions		(125)	(57,672)	(128,956)	(41,326)	(199,899)	(427,978)
Transfer in (out) of Level III		(58,374)	—	—	810	(137,365)	(194,929)
Balance at June 30, 2010	\$	<u>601,618</u>	<u>1,061,005</u>	<u>421,601</u>	<u>1,102,253</u>	<u>1,063,467</u>	<u>4,249,944</u>

During fiscal year 2011 there were no transfers between investment Levels 1 and 2 which are considered material to the financial statements. Transfers between investment levels primarily take place between Levels 2 and 3 in recognition of changes in observable market data at the end of each reporting period.

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June 30, 2011 and 2010

(In thousands of dollars)

A summary of the University's investment returns for the years ended June 30, 2011 and 2010 is presented as follows:

	2011			2010
	University	Medical Center	Consolidated	Consolidated
Investment return:				
Interest and dividends	\$ 61,695	13,459	75,154	67,200
Net realized and unrealized gains and (losses)	<u>937,785</u>	<u>123,889</u>	<u>1,061,674</u>	<u>678,477</u>
Investment return	<u>\$ 999,480</u>	<u>137,348</u>	<u>1,136,828</u>	<u>745,677</u>

Investment returns are reported in the accompanying consolidated statements of activities as endowment payout, earning on other investments and investment gains (losses).

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2011, the University had unfunded commitments of \$914,462 which are likely to be called through 2015. Details of these commitments are as follows:

	Unfunded commitments
Global public equities	\$ 3,110
Private equity	304,891
Real estate	266,576
Natural resources	205,880
Absolute return	3,656
Private debt	<u>130,349</u>
Total	<u>\$ 914,462</u>

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

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

	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions in place at June 30, 2011
Cash	N/A	Daily	None	None
Global public equities:				
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 14 days	None	None
Partnerships	N/A	Quarterly to annually with notice periods of 30 to 180 days	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	None
Private debt	1 to 10 years	Redemptions not permitted	N/A	N/A
Private equity	1 to 19 years	Redemptions not permitted	N/A	N/A
Real estate	1 to 18 years	Redemptions not permitted	N/A	N/A
Natural resources	1 to 18 years	Redemptions not permitted	N/A	N/A
Absolute return:				
Partnerships	N/A	Monthly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	Approximately \$36.0 million of investments are in gated or liquidating funds
Drawdown partnerships	1 to 4 years	Redemptions not permitted	N/A	N/A
Fixed income:				
Separate accounts	N/A	Daily	None	None
Commingled funds	N/A	Daily	None	None
Partnerships	N/A	Quarterly with notice periods of 90 days	Only one-third capital available in any 12-month period	None
Funds in Trust	N/A	Daily	None	None

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(In thousands of dollars)

(4) Endowments

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

(a) University Endowment

Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2011:

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Investment return:				
Endowment yield (interest and dividends)	\$ 16,429	41,038	985	58,452
Net appreciation (realized and unrealized) on investments	<u>300,850</u>	<u>622,442</u>	<u>13,672</u>	<u>936,964</u>
Total investment return	317,279	663,480	14,657	995,416
Endowment payout	<u>(132,200)</u>	<u>(204,459)</u>	<u>(5,201)</u>	<u>(341,860)</u>
Net investment return	<u>185,079</u>	<u>459,021</u>	<u>9,456</u>	<u>653,556</u>

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Other changes in endowment investments:				
Gifts and pledge payments received in cash	\$ —	190	87,858	88,048
Transfers to create funds functioning as endowment	40,383	—	—	40,383
Other changes	<u>21,032</u>	<u>(29,032)</u>	<u>12,309</u>	<u>4,309</u>
Total other changes in endowment investments	<u>61,415</u>	<u>(28,842)</u>	<u>100,167</u>	<u>132,740</u>
Net change in endowment investments	246,494	430,179	109,623	786,296
Endowment investments at:				
Beginning of year	<u>1,570,387</u>	<u>2,144,096</u>	<u>1,190,234</u>	<u>4,904,717</u>
End of year	<u>\$ 1,816,881</u>	<u>2,574,275</u>	<u>1,299,857</u>	<u>5,691,013</u>

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets by type of fund:				
Donor-restricted "true" endowment	\$ (4,803)	2,574,275	1,299,857	3,869,329
Board-designated "funds functioning as endowment"	<u>1,821,684</u>	<u>—</u>	<u>—</u>	<u>1,821,684</u>
Total – as above	<u>\$ 1,816,881</u>	<u>2,574,275</u>	<u>1,299,857</u>	<u>5,691,013</u>

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(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, 2010:

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

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Net assets by type of fund:				
Donor-restricted "true" endowment	\$ (25,384)	2,144,096	1,190,234	3,308,946
Board-designated "funds functioning as endowment"	<u>1,595,771</u>	<u>—</u>	<u>—</u>	<u>1,595,771</u>
Total – as above	\$ <u><u>1,570,387</u></u>	<u><u>2,144,096</u></u>	<u><u>1,190,234</u></u>	<u><u>4,904,717</u></u>

(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, 2011:

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Investment return:				
Endowment yield (interest and dividends)	\$ 12,811	648	—	13,459
Net appreciation (realized and unrealized) on investments	<u>112,358</u>	<u>12,356</u>	<u>—</u>	<u>124,714</u>
Total investment return	125,169	13,004	—	138,173
Endowment payout	<u>(36,056)</u>	<u>(3,986)</u>	<u>—</u>	<u>(40,042)</u>
Net investment return	<u>89,113</u>	<u>9,018</u>	<u>—</u>	<u>98,131</u>

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(In thousands of dollars)

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Other changes in endowment investments:				
Gifts and pledge payments received in cash	\$ —	—	11	11
Transfers to create funds functioning as endowment	25,000	—	—	25,000
Other changes	5	(5)	—	—
Total other changes in endowment investments	<u>25,005</u>	<u>(5)</u>	<u>11</u>	<u>25,011</u>
Net change in endowment investments	114,118	9,013	11	123,142
Endowment investments at:				
Beginning of year	<u>696,066</u>	<u>58,844</u>	<u>6,061</u>	<u>760,971</u>
End of year	<u>\$ 810,184</u>	<u>67,857</u>	<u>6,072</u>	<u>884,113</u>

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Net assets by type of fund:				
Donor-restricted "true" endowment	\$ —	67,857	6,072	73,929
Board-designated "funds functioning as endowment"	<u>810,184</u>	<u>—</u>	<u>—</u>	<u>810,184</u>
Total – as above	<u>\$ 810,184</u>	<u>67,857</u>	<u>6,072</u>	<u>884,113</u>

Included in board-designated "funds functioning as endowment" are \$358,406 of net assets that are separately invested by the Medical Center.

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(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, 2010:

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

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(In thousands of dollars)

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

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

(c) Interpretation of Relevant Law

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

(d) Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board of Trustees with the objective of a 5.0% average payout over time, was 5.50% and 5.25% for the fiscal years ended June 30, 2011 and 2010, respectively. Periodically, the University Board of Trustees will adjust the endowment payout to fund specifically approved strategic initiatives.

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

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(In thousands of dollars)

(e) *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted “true” endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, which, as of June 30, 2011 and 2010, amounted to \$4,803 and \$25,384 for the University and \$0 and \$5 for the Medical Center, respectively.

(5) **Notes and Accounts Receivable**

Components of notes and accounts receivable at June 30, 2011 and 2010 are shown as follows:

	2011			2010
	University	Medical Center	Consolidated	
Patients	\$ 73,868	165,254	239,122	231,494
Students:				
Loans	45,651	—	45,651	61,651
Tuition and fees	2,781	—	2,781	3,164
U.S. government	25,999	—	25,999	33,197
All other	71,281	—	71,281	68,420
Subtotal	219,580	165,254	384,834	397,926
Less allowance for doubtful accounts (primarily patient receivables)	(65,697)	(26,653)	(92,350)	(95,188)
Total	\$ 153,883	138,601	292,484	302,738

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(In thousands of dollars)

(6) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2011 and 2010 are shown as follows:

	2011			2010
	University	Medical Center	Consolidated	Consolidated
Land	\$ 65,416	36,008	101,424	99,518
Buildings	2,545,947	645,336	3,191,283	3,093,384
Equipment	461,690	436,070	897,760	836,432
Books	269,614	—	269,614	253,643
Construction in progress	280,831	425,488	706,319	436,627
Subtotal	3,623,498	1,542,902	5,166,400	4,719,604
Less accumulated depreciation	(1,269,313)	(649,135)	(1,918,448)	(1,764,935)
Total	\$ 2,354,185	893,767	3,247,952	2,954,669

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(In thousands of dollars)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2011 and 2010 are shown as follows:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2011</u>	<u>2010</u>
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	6.0%	\$ 1,425	1,850
Series 2001A	2042	5.3	2,860	2,860
Series 2003A	2034	4.0% – 5.3%	168,820	173,475
Illinois Finance Authority (IFA):				
Series 2004A	2035	5.0%	92,620	94,600
Series 2004C (synthetically fixed rate)	2040	3.8	78,122	78,241
Series 2007	2047	5.0	242,595	244,030
Series 2008 (synthetically fixed rate)	2039	3.2	117,034	119,477
Series 2008B	2039	5.6	500,000	500,000
Illinois Health Facilities Authority (IHFA) – Series 1985				
Taxable bonds – Series 2010	2021	5.5	61,030	61,145
Unamortized premium	2031	5.3	300,000	300,000
			<u>10,290</u>	<u>10,625</u>
Total fixed rate			<u>1,574,796</u>	<u>1,586,303</u>
Variable rate:				
Illinois Student Assistance Commission (ISAC)				
	—	—	—	15,639
IEFA:				
Series 1998B	2026	3.4	90,090	90,090
Series 2001B-1	2037	1.1	60,000	60,000
Series 2001B-2	2037	1.9	40,000	40,000
Series 2001B-3	2037	0.4	72,265	72,265
Series 2003B	2034	0.1	43,877	45,009
IFA – Series 2004B	2035	0.1	91,561	93,798
Taxable commercial paper (\$200,000 available)	2011	0.2	100,000	100,000
Bank lines of credit (\$250,000 available)	2011	0.6	97,000	21,000
			<u>594,793</u>	<u>537,801</u>
Total variable rate			<u>594,793</u>	<u>537,801</u>
Total University			<u>2,169,589</u>	<u>2,124,104</u>
Medical Center:				
Fixed rate:				
IHFA:				
Series 2001	2024	4.0% – 5.4%	27,570	29,040
Series 2001	2032	5.0%	28,100	28,100
Series 2001	2037	5.1	24,065	24,065
Series 2003	2015	4.0% – 6.0%	27,725	33,920
IFA:				
Series 2009C	2037	5.3% – 5.5%	85,000	85,000
Series 2009A and B	2027	3.0% – 5.0%	153,670	154,830
Series 2011C	2037	5.5%	90,000	—
Unamortized premium			7,088	9,049
Total fixed rate			<u>443,218</u>	<u>364,004</u>
Variable rate:				
IEFA pooled financing program				
	2038	0.4	85,066	86,803
IFA:				
Series 2009D-1 and 2	2044	0.1	70,000	70,000
Series 2009E-1 and 2	2044	0.1	70,000	70,000
Series 2010A and B	2045	0.1	92,500	—
Series 2011A and B	2045	0.1	92,500	—
Bank line of credit (\$15,000 available)	2011	—	—	—
			<u>410,066</u>	<u>226,803</u>
Total variable rate			<u>410,066</u>	<u>226,803</u>
Total Medical Center			<u>853,284</u>	<u>590,807</u>
Total notes and bonds payable			<u>\$ 3,022,873</u>	<u>2,714,911</u>

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(a) Fiscal 2011 Transactions

During fiscal year 2011, the Medical Center issued \$90,000 in fixed rate revenue bonds (Series 2011C) and \$185,000 in variable rate demand bonds (Series 2010A and B and Series 2011A and B) through the IFA, proceeds from which are being used to finance the construction of a new hospital facility.

(b) Defeased Debt

As of June 30, 2011 and 2010, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$75,115.

(c) Interest Rate Swaps

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

At June 30, 2011 and 2010, the fair value of the interest rate swap agreements was an accrued liability of \$25,864 and \$33,122 and \$58,064 and \$61,853 for the University and Medical Center, respectively. Changes in the fair value of the interest rate swap agreements for the fiscal years ended June 30, 2011 and 2010, which amounted to \$7,257 and \$(11,049) for the University and \$3,789 and \$(29,406) for the Medical Center, respectively, are included in other unrestricted nonoperating changes in the accompanying consolidated statements of activities. These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2012 through 2016 are approximately \$15,204; \$15,888; \$44,014; \$33,669; and \$25,901, respectively.

Principal payments required in each of the five years ending June 30, 2012 through 2016 for the Medical Center notes and bonds are approximately \$9,340; \$9,810; \$10,315; \$10,035; and \$11,565, respectively.

(e) Fair Value

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2011 and 2010, based on quoted market prices for the same or similar issues.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(f) Collateral

The University's June 30, 2011 notes and bonds payable are secured by certain physical properties with a carrying value of approximately \$225 and assets held by trustees for debt service of \$7,887.

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

(g) Remarketing

Included in the University and Medical Center's notes and bonds payable are \$594,793 and \$410,066, respectively, of variable rate notes and bonds maturing through fiscal year 2044. In the event the University and Medical Center's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University and Medical Center have standby bond purchase agreements totaling \$300,000 and \$410,066, respectively, which support variable rate debt in the event of a failed remarketing.

In addition, the University has a standby bond purchase agreement of \$117,034 in support of its IFA Series 2008 variable rate bonds, which, through an interest rate swap agreement, carry a synthetically fixed interest rate.

(8) Pledges

Pledges receivable at June 30, 2011 and 2010 are shown as follows:

	2011			2010
	University	Medical Center	Consolidated	Consolidated
Unconditional promises expected to be collected in:				
Less than one year	\$ 90,841	5,765	96,606	103,353
One year to five years	105,485	8,985	114,470	112,503
More than five years	227,069	144	227,213	248,494
	<u>423,395</u>	<u>14,894</u>	<u>438,289</u>	<u>464,350</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(68,778)</u>	<u>(869)</u>	<u>(69,647)</u>	<u>(77,187)</u>
Total	<u>\$ 354,617</u>	<u>14,025</u>	<u>368,642</u>	<u>387,163</u>

The University's five largest pledges comprise 98% of pledges expected to be collected in more than five years. Included in this amount is the estimated fair value of a nonmarketable equity investment (based

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

on discounted cash flow and market multiples) specifically aligned with a promise to give, the proceeds of which when sold will be used to satisfy the pledge.

In addition, at June 30, 2011, the University has received \$305,233 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, completion of construction projects, or future income from pledged investments. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(9) Self-Insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the year ended June 30, 2011, was \$7,500 per claim and unlimited in the aggregate. Claims in excess of \$7,500 are subject to an additional self-insurance retention limited to \$12,500 per claim and \$12,500 in annual aggregate. For the year ended June 30, 2010, the self-insurance retention was \$10,000 per claim and unlimited in annual aggregate. Claims in excess of \$10,000 are subject to an additional self-insurance retention limited to \$15,000 per claim and \$15,000 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

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

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 \$57,600 higher than the amount recorded in the consolidated financial statements at June 30, 2011. The interest rate assumed in determining the present value was 5.25%. The University recorded unrestricted nonoperating actuarial income adjustments of \$58,013 and \$33,147 during the years ended June 30, 2011 and 2010, respectively, which are included in the accompanying consolidated statements of activities.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2011 and 2010 is presented as follows:

	2011			2010 Consolidated
	University	Medical Center	Consolidated	
Medical malpractice	\$ 245,861	—	245,861	240,492
Workers' compensation	5,031	8,196	13,227	11,094
Others	3,638	—	3,638	2,622
Total	\$ 254,530	8,196	262,726	254,208

(10) Pension Plans and Other Postretirement Benefits

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

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

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

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	
	2011	2010	2011	2010
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 592,464	444,204	196,857	168,085
Service cost	28,114	20,217	8,395	6,852
Interest cost	31,824	29,325	10,696	11,289
Benefits paid	(26,168)	(29,764)	(6,864)	(6,918)
Plan amendments	—	4,572	—	—
Actuarial loss, net	25,010	123,910	2,709	17,549
Benefit obligation at end of year	<u>651,244</u>	<u>592,464</u>	<u>211,793</u>	<u>196,857</u>
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	285,807	225,530	9,140	13,389
Actual return on plan assets	40,658	27,813	1,457	1,518
Employer contributions	85,281	62,228	1,499	1,151
Benefits paid	(26,168)	(29,764)	(6,864)	(6,918)
Fair value of plan assets at end of year	<u>385,578</u>	<u>285,807</u>	<u>5,232</u>	<u>9,140</u>
Funded status – liability	<u>\$ (265,666)</u>	<u>(306,657)</u>	<u>(206,561)</u>	<u>(187,717)</u>

The accumulated benefit obligation for the defined benefit pension plans was \$560,647 and \$499,986 at June 30, 2011 and 2010, respectively.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(a) Components of Net Periodic Benefit Cost

	Defined benefit pension plans		Other postretirement benefit plans	
	2011	2010	2011	2010
Service cost	\$ 28,114	20,217	8,395	6,852
Interest cost	31,824	29,325	10,696	11,289
Expected return on plan assets	(29,126)	(28,351)	(428)	(706)
Amortization of prior service cost (benefit)	1,134	716	(2,105)	(2,105)
Amortization of transition obligation	—	—	1,370	1,370
Amortization of actuarial loss	14,951	3,810	5,478	4,733
Net periodic benefit cost	\$ 46,897	25,717	23,406	21,433
Amounts included in the consolidated statements of activities:				
University	\$ 4,257	(5,397)	23,406	21,433
Medical Center	42,640	31,114	—	—
Total	\$ 46,897	25,717	23,406	21,433

(b) Actuarial Assumptions

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2011	2010	2011	2010
Discount rate	5.5%	5.5%	5.6%	5.5%
Expected return on plan assets	7.1	7.6	6.5	6.5
Rate of compensation increase	3.5	3.5	3.5	3.6
Healthcare cost trend rates:				
Next two fiscal years			7.7% – 8.0%	8.0% – 8.2%
Next seven fiscal years			6.2% – 7.5%	6.3% – 7.7%
Thereafter			4.5% – 6.0%	4.5% – 6.2%

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

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(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:

		<u>2011</u>	<u>2010</u>
Effect on total service cost and interest cost:			
One-percentage-point increase	\$	3,569	3,003
One-percentage-point decrease		(2,752)	(2,342)
Effect on year-end postretirement benefit obligation:			
One-percentage-point increase	\$	31,657	28,931
One-percentage-point decrease		(25,404)	(23,205)

(c) **Plan Assets**

Weighted average asset allocations by asset category are as follows:

	Defined benefit pension plans		Other postretirement benefit plans	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Domestic public equities	27%	26%	51%	58%
International public equities	16	13	—	—
Fixed income	57	61	49	42
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

As of June 30, 2011, substantially all of the plan assets for the defined benefit pension plans and other postretirement benefit plans are invested in mutual funds and exchange traded funds and are valued based on quoted market prices in active markets for identical investments (Level 1). The defined benefit plans combined target asset allocation of 43% public equities and 57% fixed income securities is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments. Plan assets for the other postretirement benefit plans are managed by the University and have a target asset allocation of 50% public equities and 50% fixed income securities.

(d) **Contributions**

The University expects to make no contribution to its postretirement healthcare plan and, along with the Medical Center, expects to make a \$105,300 contribution to the defined benefit pension plans in fiscal year 2012.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(e) *Estimated Future Benefits Payments*

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

Fiscal year	Defined benefit pension plans	Other postretirement benefit plans
2012	\$ 32,866	7,468
2013	31,814	7,105
2014	33,573	9,716
2015	35,743	10,620
2016	38,184	10,305
2017 – 2021	228,537	64,052

(f) *Prescription Drug Act*

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement plan currently meets Medicare's criteria for the tax-free subsidy because the University's plan provides for a higher level of reimbursement than Medicare. The University has recognized the effect of this subsidy in the calculation of its postretirement benefit obligation, the impact of which is to reduce the benefit obligation by \$52,280 and \$50,542 at June 30, 2011 and 2010, respectively.

(g) *Curtailed Pension Plan*

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2011 and 2010, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of \$13,502 and \$19,903 at June 30, 2011 and 2010, respectively.

(h) *Defined Contribution Pension Plan*

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$42,895 in fiscal year 2011 and \$41,060 in fiscal year 2010 for the University and \$10,200 in fiscal year 2011 and \$10,632 in fiscal year 2010 for the Medical Center.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(11) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2011 and 2010 are shown as follows:

	2011	2010
University:		
Academic and research:		
Instruction	\$ 811,558	725,867
Research	296,716	287,144
Auxiliary enterprises	154,593	163,908
Library	17,237	18,126
Student services	47,768	47,827
Operation and maintenance of physical plant	101,198	88,127
Depreciation	109,878	107,458
Interest on notes and bonds	50,452	25,618
Total academic and research	1,589,400	1,464,075
Administration:		
Institutional support	89,818	120,226
Informational services	44,633	46,265
Development and alumni relations	56,340	54,108
Operation and maintenance of physical plant	10,367	7,221
Depreciation	27,256	24,288
Interest on notes and bonds	22,940	9,651
Total administration	251,354	261,759
Total University	1,840,754	1,725,834
Medical Center:		
Healthcare service	1,029,727	980,185
General and administrative	58,667	54,497
	1,088,394	1,034,682
Total	\$ 2,929,148	2,760,516

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

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

(12) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's board of trustees are faculty members or officers of the University. Program-related revenue for the years ended December 31, 2010 and 2009 was \$148,970 and \$116,220, respectively. Unrestricted net assets at December 31, 2010 and 2009 were \$21,477 and \$20,521, 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 \$745,189 for ANL and \$431,610 for Fermilab in fiscal year 2011, and \$642,671 for ANL and \$403,845 for Fermilab in fiscal year 2010, are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

(13) Contingencies

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

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheet

June 30, 2011

(In thousands of dollars)

Assets	University			Medical Center	2011 Consolidated
	University Excluding BSD	BSD	Total		
Cash and cash equivalents	\$ (103,961)	158,241	54,280	148,207	202,487
Notes and accounts receivable	105,752	48,131	153,883	138,601	292,484
Prepaid expenses and other assets	13,544	29,969	43,513	71,488	115,001
Pledges receivable	354,617	—	354,617	14,025	368,642
Internal loan receivable (payable)	436,151	(436,151)	—	—	—
Investments	5,082,210	1,363,283	6,445,493	1,035,221	7,480,714
Land, buildings, equipment, and books	1,787,601	566,584	2,354,185	893,767	3,247,952
Total assets	\$ 7,675,914	1,730,057	9,405,971	2,301,309	11,707,280
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$ 269,211	30,399	299,610	253,337	552,947
Deferred revenue	72,423	16,288	88,711	—	88,711
Assets held in custody for others	61,084	195	61,279	—	61,279
Self-insurance liability	8,669	245,861	254,530	8,196	262,726
Pension and other postretirement benefit obligations	472,227	—	472,227	13,502	485,729
Asset retirement obligation	56,507	—	56,507	8,015	64,522
Notes and bonds payable	2,169,589	—	2,169,589	853,284	3,022,873
Refundable U.S. government student loan funds	37,487	317	37,804	—	37,804
Total liabilities	3,147,197	293,060	3,440,257	1,136,334	4,576,591
Net assets:					
Unrestricted	896,852	591,535	1,488,387	1,064,924	2,553,311
Temporarily restricted	2,553,295	525,632	3,078,927	93,939	3,172,866
Permanently restricted	1,078,570	319,830	1,398,400	6,112	1,404,512
Total net assets	4,528,717	1,436,997	5,965,714	1,164,975	7,130,689
Total liabilities and net assets	\$ 7,675,914	1,730,057	9,405,971	2,301,309	11,707,280

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

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2011

(In thousands of dollars)

	University			Medical Center	2011 Consolidated
	University Excluding BSD	BSD	Total		
Changes in unrestricted net assets:					
Operating:					
Revenue:					
Tuition and fees – gross	\$ 572,363	35,281	607,644	—	607,644
Less student aid	(234,817)	(39,100)	(273,917)	—	(273,917)
Tuition and fees – net	337,546	(3,819)	333,727	—	333,727
Government grants and contracts	174,714	243,168	417,882	—	417,882
Private gifts, grants, and contracts	96,333	49,264	145,597	1,018	146,615
Endowment payout	280,027	56,632	336,659	40,042	376,701
Earnings on other investments	3,207	36	3,243	—	3,243
Patient care	—	200,406	200,406	1,113,690	1,314,096
Auxiliaries	151,188	52,292	203,480	—	203,480
Other income	111,158	47,569	158,727	41,170	199,897
Net assets released from restrictions	43,683	16,903	60,586	—	60,586
Total operating revenue	1,197,856	662,451	1,860,307	1,195,920	3,056,227
Expenses:					
Compensation:					
Academic salaries	216,677	226,728	443,405	—	443,405
Staff salaries	313,628	146,676	460,304	388,796	849,100
Benefits	155,493	95,129	250,622	118,057	368,679
Total compensation	685,798	468,533	1,154,331	506,853	1,661,184
Other operating expenses:					
Utilities, alterations, and repairs	45,177	1,255	46,432	25,941	72,373
Depreciation	97,330	39,804	137,134	67,204	204,338
Interest	73,392	—	73,392	10,758	84,150
Supplies, services, and other	271,739	127,148	398,887	456,764	855,651
Insurance	4,914	25,664	30,578	20,874	51,452
Total other operating expenses	492,552	193,871	686,423	581,541	1,267,964
Total operating expenses	1,178,350	662,404	1,840,754	1,088,394	2,929,148
Excess of operating revenue over expenses	19,506	47	19,553	107,526	127,079

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2011

(In thousands of dollars)

	University			Medical Center	2011 Consolidated
	University Excluding BSD	BSD	Total		
Changes in unrestricted net assets:					
Nonoperating:					
Investment gains	\$ 159,725	26,510	186,235	84,705	270,940
Postretirement benefit changes other than net periodic benefit cost	5,671	—	5,671	3,381	9,052
Others, net	23,766	67,623	91,389	12,199	103,588
Change in unrestricted net assets from nonoperating activities	189,162	94,133	283,295	100,285	383,580
Increase in unrestricted net assets	208,668	94,180	302,848	207,811	510,659
Changes in temporarily restricted net assets:					
Private gifts	55,991	469	56,460	8,844	65,304
Investment gains	360,173	98,513	458,686	12,601	471,287
Others, net	(20,109)	(19,983)	(40,092)	(4,882)	(44,974)
Net assets released from restrictions	(56,520)	(4,066)	(60,586)	—	(60,586)
Increase in temporary restricted net assets	339,535	74,933	414,468	16,563	431,031
Changes in permanently restricted net assets:					
Private gifts	29,360	46,511	75,871	9	75,880
Endowment payout	4,672	529	5,201	—	5,201
Investment gains	8,774	682	9,456	—	9,456
Others, net	12,334	7,894	20,228	—	20,228
Increase in permanently restricted net assets	55,140	55,616	110,756	9	110,765
Increase in net assets	603,343	224,729	828,072	224,383	1,052,455
Net assets at beginning of year	3,925,374	1,212,268	5,137,642	940,592	6,078,234
Net assets at end of year	\$ 4,528,717	1,436,997	5,965,714	1,164,975	7,130,689

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Cash Flows

Year ended June 30, 2011

(In thousands of dollars)

	<u>University</u>	<u>Medical Center</u>	<u>2011 Consolidated</u>
Cash flows from operating activities:			
Increase in net assets	\$ 828,072	224,383	1,052,455
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation	137,134	67,204	204,338
Loss on disposal of land, buildings, equipment, and books	15,573	272	15,845
Net gain on investments	(937,784)	(122,533)	(1,060,317)
Private gifts and grants restricted for long-term investment	(132,331)	(8,853)	(141,184)
Other nonoperating changes	41,708	(4,896)	36,812
Postretirement benefit changes other than net periodic benefit cost	(5,672)	(3,381)	(9,053)
Changes in assets and liabilities:			
Notes and accounts receivable	6,082	(11,627)	(5,545)
Prepaid expenses and other assets	13,280	(9,484)	3,796
Accounts payable and other liabilities	15,016	(31,631)	(16,615)
Self-insurance liability	7,684	834	8,518
Total adjustments	<u>(839,310)</u>	<u>(124,095)</u>	<u>(963,405)</u>
Net cash provided by operating activities	<u>(11,238)</u>	<u>100,288</u>	<u>89,050</u>
Cash flows from investing activities:			
Purchase of investments	(2,094,872)	(137,678)	(2,232,550)
Proceeds from sale of investments	2,238,344	79,585	2,317,929
Acquisition of land, buildings, equipment, and books	(268,735)	(244,876)	(513,611)
Loans disbursed	(5,908)	—	(5,908)
Principal collected on loans	21,707	—	21,707
Net cash used in investing activities	<u>(109,464)</u>	<u>(302,969)</u>	<u>(412,433)</u>
Cash flows from financing activities:			
Proceeds from issuance of notes and bonds payable	781,700	275,839	1,057,539
Principal payments on notes and bonds payable	(736,215)	(14,206)	(750,421)
Proceeds from private gifts and grants restricted for long-term investment	105,831	4,742	110,573
Other nonoperating changes	7,421	(23,000)	(15,579)
Net cash provided by financing activities	<u>158,737</u>	<u>243,375</u>	<u>402,112</u>
Increase in cash and cash equivalents	38,035	40,694	78,729
Cash and cash equivalents at:			
Beginning of year	<u>16,245</u>	<u>107,513</u>	<u>123,758</u>
End of year	<u>\$ 54,280</u>	<u>148,207</u>	<u>202,487</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 83,804	12,210	96,014

See accompanying independent auditors' report.