The University of Chicago

2013–2014

Financial Statements and Supplemental University Information

THE UNIVERSITY OF CHICAGO

Table of Contents

THE UNIVERSITY OF CHICAGO

Management's Responsibility for Consolidated Financial Statements

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

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

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

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

Rowan A. Miranda
Interim Chief Financial Officer

John R. Kroll
Associate Vice President for Finance

KPMG

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Independent Auditors' Report

The Board of Trustees
The University of Chicago:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Chicago (the University), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 19% and 19% and total revenues constituting 42% and 43% of the related consolidated totals in 2014 and 2013, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2014 and 2013, 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 supplementary 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
October 15, 2014

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2014 and 2013

(In thousands of dollars)

Assets		**2014**	**2013**
Cash and cash equivalents	$	103,010	190,082
Notes and accounts receivable, net		385,643	387,513
Prepaid expenses and other assets		118,713	105,285
Pledges receivable, net		509,365	422,325
Investments		8,232,050	7,686,884
Land, buildings, equipment, and books, net		4,249,105	3,733,388
Total assets	$	13,597,886	12,525,477
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	746,623	644,346
Deferred revenue		88,388	89,480
Assets held in custody for others		62,158	58,923
Self-insurance liability		257,762	273,692
Pension and other postretirement benefit obligations		450,677	490,642
Asset retirement obligation		59,783	61,631
Notes and bonds payable		3,700,862	3,563,152
Refundable U.S. government student loan funds		38,711	38,390
Total liabilities		5,404,964	5,220,256
Net assets:			
Unrestricted		2,805,178	2,512,969
Temporarily restricted		3,644,424	3,240,422
Permanently restricted		1,743,320	1,551,830
Total net assets		8,192,922	7,305,221
Total liabilities and net assets	$	13,597,886	12,525,477

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2014 and 2013

(In thousands of dollars)

	2014	2013
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	$ 706,731	671,779
Less student aid	(327,518)	(310,056)
Tuition and fees – net	379,213	361,723
Government grants and contracts	344,850	356,938
Private gifts, grants, and contracts	236,528	160,132
Endowment payout	392,118	367,225
Earnings on other investments	3,899	1,772
Patient care	1,593,911	1,480,295
Auxiliaries	208,725	210,945
Other income	284,515	246,938
Net assets released from restrictions	75,015	52,071
Total operating revenue	3,518,774	3,238,039
Expenses:		
Compensation:		
Academic salaries	505,660	484,507
Staff salaries	1,034,184	962,837
Benefits	417,567	412,371
Total compensation	1,957,411	1,859,715
Other operating expenses:		
Utilities, alterations, and repairs	90,406	68,886
Depreciation	247,974	223,140
Interest	129,916	108,320
Supplies, services, and other	1,032,105	939,330
Insurance	38,490	44,733
Total other operating expenses	1,538,891	1,384,409
Total operating expenses	3,496,302	3,244,124
Excess (deficiency) of operating revenue over expenses	22,472	(6,085)

(Continued)

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2014 and 2013

(In thousands of dollars)

		2014	2013
Changes in unrestricted net assets:			
Nonoperating:			
Investment gains	$	178,845	26,296
Postretirement benefit changes other than net periodic benefit cost		34,016	89,046
Affiliation – MBL net assets as of July 1, 2013		89,999	—
Change in value of derivative instruments		(7,577)	70,310
Loss on debt refinancing		—	(1,143)
Other, net		(25,546)	9,661
Change in unrestricted net assets from nonoperating activities		269,737	194,170
Increase in unrestricted net assets		292,209	188,085
Changes in temporarily restricted net assets:			
Private gifts		172,128	119,085
Investment gains		323,792	87,456
Affiliation – MBL net assets as of July 1, 2013		16,730	—
Other, net		(33,633)	(64,572)
Net assets released from restrictions		(75,015)	(52,071)
Increase in temporarily restricted net assets		404,002	89,898
Changes in permanently restricted net assets:			
Private gifts		119,042	82,981
Affiliation – MBL net assets as of July 1, 2013		51,256	—
Endowment payout		1,969	2,156
Investment losses		(3,013)	(33,658)
Other, net		22,236	41,832
Increase in permanently restricted net assets		191,490	93,311
Increase in net assets		887,701	371,294
Net assets at beginning of year		7,305,221	6,933,927
Net assets at end of year	$	8,192,922	7,305,221

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands of dollars)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	887,701	371,294
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Affiliation – MBL net assets as of July 1, 2013		(157,985)	—
Depreciation		247,974	223,140
Change in value of derivative instruments		8,704	(70,310)
Loss on debt refinancing		—	1,143
Loss on disposal of land, buildings, equipment, and books		10,695	29,407
Net gain on investments		(786,040)	(353,181)
Private gifts and grants restricted for long-term investment		(287,042)	(199,850)
Other nonoperating changes		185,952	120,865
Postretirement benefit changes other than net periodic benefit cost		(33,414)	(89,046)
Changes in operating assets and liabilities:			
Notes and accounts receivable		9,315	(9,924)
Prepaid expenses and other assets		(12,412)	21,632
Accounts payable and other liabilities		75,556	73,553
Self-insurance liability		(15,930)	9,444
Total adjustments		(754,627)	(243,127)
Net cash provided by operating activities		133,074	128,167
Cash flows from investing activities:			
Affiliation – MBL cash and cash equivalents as of July 1, 2013		1,543	—
Purchase of investments		(1,958,015)	(2,054,854)
Proceeds from sale of investments		2,273,401	2,135,012
Acquisition of land, buildings, equipment, and books		(650,297)	(469,877)
Loans disbursed		(6,844)	(6,895)
Principal collected on loans		6,602	6,118
Net cash used in investing activities		(333,610)	(390,496)
Cash flows from financing activities:			
Proceeds from issuance of debt instruments		1,412,121	1,384,452
Principal payments on debt instruments		(1,315,191)	(1,106,347)
Proceeds from private gifts and grants restricted for long-term investment		130,982	94,372
Other nonoperating changes		(114,448)	(66,344)
Net cash provided by financing activities		113,464	306,133
Increase (decrease) in cash and cash equivalents		(87,072)	43,804
Cash and cash equivalents at:			
Beginning of year		190,082	146,278
End of year	$	103,010	190,082
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	140,465	119,081

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.

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

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

(b) Basis of Presentation

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

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

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

- Unrestricted – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University-instruction, conduct of sponsored research, and provision of healthcare services. In addition to these exchange transactions, changes in this category of net assets include investment returns on unrestricted "funds functioning as endowment" funds, actuarial adjustments to self-insurance liabilities, and certain types of philanthropic support. Such philanthropic support includes unrestricted gifts, including those designated by the Board of Trustees (the Board) to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.
- Temporarily Restricted – Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts, pledges for which the ultimate purpose of the proceeds is not permanently restricted, investment returns on "true" endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on temporarily restricted net assets, including amortization of restricted gifts and grants for buildings and equipment, are reported as net assets released from restrictions.
- Permanently Restricted – Net assets subject to donor-imposed restrictions to be maintained permanently by the University. Items that affect this net asset category include gifts and pledges wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income be made available for program operations, and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

(In thousands of dollars)

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

Detail of net assets	2014 Temporarily restricted	2014 Permanently restricted	2013 Temporarily restricted	2013 Permanently restricted
University:				
Operating	$ 12,183	—	10,968	—
Pledges	399,529	103,738	336,966	80,651
Student loans	—	21,088	—	20,192
Endowment	2,934,645	1,515,726	2,628,304	1,407,485
Annuity and life income	27,738	43,030	22,718	37,410
Net investment in physical properties	157,999	—	159,495	—
Subtotal	3,532,094	1,683,582	3,158,451	1,545,738
Medical Center:				
Operating	9,005	—	8,639	—
Pledges	4,481	10	4,698	10
Endowment	74,468	8,082	68,634	6,082
Subtotal	87,954	8,092	81,971	6,092
Marine Biological Laboratory:				
Operating	4,432	—		
Pledges	470	1,137		
Annuity and life income	302	401		
Endowment	19,172	50,108		
Subtotal	24,376	51,646		
Total	$ 3,644,424	1,743,320	3,240,422	1,551,830

(c) Operations

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

(d) Tuition and Fees

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

(In thousands of dollars)

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2014 and 2013 are $46,633 and $45,756, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2014 and 2013 consist of the following:

		2014				
		University	Medical Center	MBL	Consolidated	2013 Consolidated
Private gifts:						
Unrestricted as to use	$	25,496	369	1,906	27,771	21,371
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue		118,442	—	—	118,442	72,628
Private grants and contracts		85,514	—	4,801	90,315	66,133
Total	$	229,452	369	6,707	236,528	160,132

(f) Patient Care

Patient service revenue is reported net of a provision for doubtful accounts of $8,402 and $8,023 for the University and $55,169 and $47,812 for the Medical Center for the years ended June 30, 2014 and 2013, respectively. This provision reflects the estimated net realizable amounts due from third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments under these agreements and programs are based on specific amounts per case or contracted prices. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

(g) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2014 and 2013, the amount of interest capitalized amounted to $11,522 and $8,674 for the University and $60 and $14,629 for the Medical Center, respectively.

(h) Fair Value

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

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

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

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

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

- ***Cash Equivalents***

  Cash equivalents include U.S. Treasury notes, commercial paper, and corporate notes with original maturities of three months or less, except that such instruments purchased with endowment assets or funds on deposit with bond trustees are classified as investments. Cash equivalents are considered Level 1 in the fair value hierarchy.

- ***Investments***

  Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds such as private debt, private equity, real estate, natural resources, and absolute return are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2014 and 2013, the University had no plans to sell investments at amounts different from NAV.

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

A summary of the inputs used in valuing the University's investments as of June 30, 2014 and 2013 is included in Note 4.

- ***Pledges Receivable***

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

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

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

- ***Split-Interest Agreements***

Split-interest agreements with donors consist primarily of charitable remainder trusts for which the University serves as trustee, gift annuity contracts, and pooled life income agreements. Assets associated with split-interest agreements are included in investments. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. At June 30, 2014 and 2013, the University had liabilities of $53,838 and $53,622 associated with its charitable remainder trust and gift annuity contracts and deferred revenue of $5,784 and $5,116 associated with its pooled income agreements, respectively. In subsequent periods, the discount rate is unchanged.

- ***Interest Rate Swap Agreements***

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

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

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

- ***Self-insurance Liability***

  The self-insurance liability is the estimated present value of self-insured claims that will be settled in the future and considers anticipated payout patterns as well as investment returns on available assets prior to payment. The discount rate used to value the self-insurance liability is a risk-adjusted rate commensurate with the duration of anticipated payments. These inputs to the fair value estimate of the liability are considered Level 2 in the fair value hierarchy.

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

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

- ***Asset Retirement Obligation***

  Asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. The obligation to remove asbestos is estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

- ***Notes and Bonds Payable***

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

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

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

(In thousands of dollars)

(i) Internally Managed Investment Derivatives

The following tables set forth the gross and net notional values and the University's gain (loss) related to internally managed investment derivative activities as of June 30, 2014 and 2013 and for the fiscal years then ended:

		2014		
		Gross notional	**Net notional**	**Gain (loss)**
Interest rate derivatives	$	12,719	12,719	218
Currency derivatives		37,782	—	(2,480)
Equity derivatives		71,369	71,369	(23,238)
Other derivatives		—	—	3
Total	$	121,870	84,088	(25,497)

		2013		
		Gross notional	**Net notional**	**Gain (loss)**
Interest rate derivatives	$	93,056	93,056	(3,102)
Currency derivatives		33,708	—	1,001
Equity derivatives		248,824	(248,824)	(46,537)
Other derivatives		—	—	4
Total	$	375,588	(155,768)	(48,634)

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

(j) Income Taxes

The University, Medical Center, and MBL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, except for unrelated business income, are exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2014 and 2013 and there are no uncertain tax positions considered to be material.

(k) Use of Estimates

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

(l) Subsequent Events

The University has performed an evaluation of subsequent events through October 15, 2014, which is the date the consolidated financial statements were issued.

In August 2014, the University issued $573,645 in fixed rate bonds through the Illinois Finance Authority (IFA) and $175,685 in taxable fixed rate bonds. Proceeds were used to 1) advance refund $397,905 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational facilities. See note 8.

In July 2014, the University sold an office building previously held for sale for $112,000. See note 7.

(2) The University of Chicago Medical Center

(a) Organization

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

(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 $313,300 and $280,900 for the years ended June 30, 2014 and 2013, respectively.

(d) Basis of Presentation

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the AICPA *Audit and Accounting Guide for Health Care Organizations*. For purposes of presentation of the Medical Center financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) investment gains used for operations of $40,658 in fiscal year 2014 and $37,398 in 2013 have been recorded as unrestricted operating revenue and (2) transfers to the University of $53,574 in fiscal year 2014 and $52,896 in fiscal year 2013 have been recorded as a reduction of other income.

(3) Marine Biological Laboratory (MBL)

(a) Organization

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

(b) Agreements with the University

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

(c) Basis of Presentation

MBL maintains its accounts and prepares stand-alone financial statements on a calendar year basis. MBL’s financial position and changes in net assets in the consolidated financial statements reflect fiscal year activity for the period July 1, 2013 to June 30, 2014.

(Continued)

(In thousands of dollars)

Amounts included in the accompanying notes and consolidated financial statements and supplemental schedules reflect MBL activity beginning on July 1, 2013 when MBL entered into an affiliation agreement with the University. MBL's net assets of $157,985 at July 1, 2013 have been recognized as contribution in the consolidated statement of activities in fiscal year 2014. The following table sets forth the fair value of MBL's assets and liabilities at July 1, 2013:

Assets:		
Cash and cash equivalents	$	1,543
Accounts receivable and other assets		10,514
Investments		70,550
Land, buildings, and equipment		116,876
Total assets	$	199,483
Liabilities:		
Accounts payable and other liabilities	$	11,083
Notes and bonds payable		30,415
Total liabilities		41,498
Net assets:		
Unrestricted		89,999
Temporarily restricted		16,730
Permanently restricted		51,256
Total net assets		157,985
Total liabilities and net assets	$	199,483

(In thousands of dollars)

(4) Investments

Investments at June 30, 2014 and 2013 comprise the following:

	2014				2013
	University	Medical Center	MBL	Consolidated	Consolidated
Cash equivalents	$ 212,453	27,688	4,341	244,482	172,279
Global public equities (primarily international)	1,307,568	259,065	13,975	1,580,608	1,251,450
Private debt	207,286	23,055	2,491	232,832	237,108
Private equity:					
U.S. venture capital	350,844	42,828	4,172	397,844	323,614
U.S. corporate finance	322,446	35,858	3,883	362,187	356,472
International	399,467	44,725	4,804	448,996	421,537
Real estate	560,477	59,020	6,299	625,796	815,268
Natural resources	602,904	66,979	7,277	677,160	655,566
Absolute return:					
Equity-oriented	497,668	55,327	5,970	558,965	402,896
Global macro/relative value	419,935	46,685	5,038	471,658	391,633
Multistrategy	545,973	60,708	6,597	613,278	561,828
Credit-oriented	189,208	21,035	2,270	212,513	182,496
Protection-oriented	110,525	12,287	1,326	124,138	125,116
Fixed income:					
U.S. treasuries, including TIPS	445,809	127,102	5,522	578,433	564,043
Other fixed income (primarily credit funds)	877,043	122,179	9,633	1,008,855	921,552
Funds in trust	77,175	17,130	—	94,305	304,026
Total	$ 7,126,781	1,021,671	83,598	8,232,050	7,686,884

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

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

Fixed-income investments consist of directly held actively traded treasuries, separately managed accounts, commingled funds, and bond mutual funds that hold securities, the majority of which have maturities greater than one year. 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 reported amount of its investments is a reasonable estimate of fair value as of June 30, 2014 and 2013. 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.

(Continued)

(In thousands of dollars)

(c) Fair Value Hierarchy of Investments

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

	Level 1	Level 2	Level 3	2014 Consolidated total
Cash equivalents	$ 244,492	—	—	244,492
Global public equities (primarily international)	894,416	375,586	310,606	1,580,608
Private debt	—	—	232,832	232,832
Private equity:				
U.S. venture capital	2,511	—	395,333	397,844
U.S. corporate finance	—	—	362,187	362,187
International	—	—	448,996	448,996
Real estate	12,801	—	612,995	625,796
Natural resources	—	—	677,160	677,160
Absolute return:				
Equity-oriented	79,416	132,342	347,207	558,965
Global macro/relative value	56,106	116,662	298,890	471,658
Multistrategy	—	67,343	545,935	613,278
Credit-oriented	—	—	212,513	212,513
Protection-oriented	—	124,138	—	124,138
Fixed income:				
U.S. treasuries, including TIPS	510,346	68,087	—	578,433
Other fixed income				—
(primarily credit funds)	1,008,855	—	—	1,008,855
Funds in trust	92,295	—	2,000	94,295
Total investments at fair value as of June 30, 2014	$ 2,901,238	884,158	4,446,654	8,232,050

(In thousands of dollars)

Following is the fair value hierarchy of investments as of June 30, 2013 in valuing the University's investments carried at fair value:

	Level 1	Level 2	Level 3	2013 Consolidated total
Cash equivalents	$ 172,279	—	—	172,279
Global public equities (primarily international)	688,141	233,043	330,266	1,251,450
Private debt	—	—	237,108	237,108
Private equity:				
U.S. venture capital	—	—	323,614	323,614
U.S. corporate finance	—	—	356,472	356,472
International	—	—	421,537	421,537
Real estate	14,943	—	800,325	815,268
Natural resources	—	—	655,566	655,566
Absolute return:				
Equity-oriented	70,974	68,741	263,181	402,896
Global macro/relative value	68,262	63,970	259,401	391,633
Multistrategy	—	29,704	532,124	561,828
Credit-oriented	—	—	182,496	182,496
Protection-oriented	—	125,116	—	125,116
Fixed income:				
U.S. treasuries, including TIPS	517,303	46,740	—	564,043
Other fixed income (primarily credit funds)	921,552	—	—	921,552
Funds in trust	302,026	—	2,000	304,026
Total investments at fair value as of June 30, 2013	$ 2,755,480	567,314	4,364,090	7,686,884

(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, 2014 and 2013 are as follows:

	Equities and fixed income	Alternative investments: Private equity	Private debt	Real assets	Absolute return	2014 Consolidated total
Balance at June 30, 2013	$ 330,266	1,101,623	237,108	1,457,891	1,237,202	4,364,090
Total net realized gains or losses	38,831	154,185	38,113	92,549	29,119	352,797
Total net unrealized gains or losses	(63,902)	(54,113)	(49,070)	(78,355)	131,668	(113,772)
Purchases	40,000	142,480	63,864	133,150	108,190	487,684
Proceeds from sales, redemptions, and distributions	(32,078)	(137,659)	(57,183)	(313,080)	(101,634)	(641,634)
Transfer in (out) of Level 3	(2,511)	—	—	—	—	(2,511)
Balance at June 30, 2014	$ 310,606	1,206,516	232,832	1,292,155	1,404,545	4,446,654

	Equities and fixed income	Alternative investments: Private equity	Private debt	Real assets	Absolute return	2013 Consolidated total
Balance at June 30, 2012	$ 460,589	1,158,794	260,031	1,452,392	1,233,627	4,565,433
Total net realized gains or losses	3,243	131,574	57,585	131,827	56,628	380,857
Total net unrealized gains or losses	19,850	(161,432)	(57,969)	(97,395)	34,363	(262,583)
Purchases	15,943	64,711	25,629	127,126	102,662	336,071
Proceeds from sales, redemptions, and distributions	(90,365)	(92,024)	(48,168)	(156,059)	(188,057)	(574,673)
Transfer in (out) of Level 3	(78,994)	—	—	—	(2,021)	(81,015)
Balance at June 30, 2013	$ 330,266	1,101,623	237,108	1,457,891	1,237,202	4,364,090

During fiscal year 2014, there were no transfers between investment Levels 1 and 2. During fiscal year 2014 and 2013, transfers occurred between investment Levels 2 and 3 as a result of changes in observable market data and/or redeemability. The University's policy is to recognize such changes at the end of the fiscal year.

(In thousands of dollars)

A summary of the University's investment return for the years ended June 30, 2014 and 2013 is presented as follows:

	2014				
	University	**Medical Center**	**MBL**	**Consolidated**	**2013 Consolidated**
Investment return:					
Interest and dividends	$ 104,715	38,419	1,004	144,138	136,772
Net realized and unrealized gains	666,083	75,502	11,887	753,472	314,475
Investment return	$ 770,798	113,921	12,891	897,610	451,247

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

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2014, the University had unfunded commitments of $960,454, which are likely to be called through 2021. Details of these commitments are as follows:

	Unfunded commitments
Private equity	$ 377,389
Real estate	228,403
Natural resources	166,767
Absolute return	3,732
Private debt	184,163
Total	$ 960,454

(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	Capital held in side pockets at June 30, 2014
Cash	N/A	Daily	None	None
Global public equities:				
Separate accounts	N/A	Daily with notice periods of 1 to 7 years	Lock-up provisions ranging from 0 to 1 year	None
Partnerships	N/A	Daily to triennial with notice periods of 2 to 90 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	$23.6 million
Private debt:				
Partnerships	N/A	Redemptions not permitted	Capital held in side pockets with no redemption permitted	$2.6 million
Drawdown partnerships	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:				
Drawdown partnerships	1 to 18 years	Redemption not permitted	N/A	N/A
Separate accounts	N/A	Daily with notice period of 5 days	None	None
Natural resources	1 to 17 years	Redemptions not permitted	N/A	N/A
Absolute return:				
Partnerships	N/A	Daily to triennial with notice periods of 1 to 180 days	Lock-up provisions ranging from 0 to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	$168.9 million
Drawdown partnerships	1 to 3 years	Redemptions not permitted	N/A	N/A
Fixed income:				
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None	None
Commingled funds	N/A	Daily to monthly with notice periods of 1 to 10 days	None	None
Partnerships	N/A	Quarterly with notice periods of 10 days	Only one-third capital available in any 12-month period	None
Funds in Trust	N/A	Daily	None	None

(In thousands of dollars)

(5) Endowments

The University's endowment consists of approximately 3,000 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." 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, 2014:

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

(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, 2013:

	2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	$ 27,175	62,662	3,208	93,045
Net appreciation (realized and unrealized) on investments	108,786	212,643	(32,201)	289,228
Total investment return	135,961	275,305	(28,993)	382,273
Endowment payout	(131,603)	(192,465)	(4,666)	(328,734)
Net investment return	4,358	82,840	(33,659)	53,539
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	81	70,587	70,668
Transfers to create funds functioning as endowment	46,582	—	—	46,582
Other changes	1,562	(6,743)	19,941	14,760
Total other changes in endowment investments	48,144	(6,662)	90,528	132,010
Net change in endowment investments	52,502	76,178	56,869	185,549
Endowment investments at:				
Beginning of year	1,798,677	2,552,126	1,350,616	5,701,419
End of year	$ 1,851,179	2,628,304	1,407,485	5,886,968
Net assets by type of fund				
Donor-restricted “true” endowment	$ (3,972)	2,628,304	1,407,485	4,031,817
Board-designated “funds functioning as endowment"	1,855,151	—	—	1,855,151
Total – as above	$ 1,851,179	2,628,304	1,407,485	5,886,968

(Continued)

(In thousands of dollars)

(b) Medical Center Endowment

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

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

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

(In thousands of dollars)

Changes in the fair value of the Medical Center endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2013:

	2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	$ 38,437	3,518	—	41,955
Net appreciation (realized and unrealized) on investments	21,351	1,086	—	22,437
Total investment return	59,788	4,604	—	64,392
Endowment payout	(37,037)	(3,610)	—	(40,647)
Net investment return	22,751	994	—	23,745
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	10	10
Transfers to create funds functioning as endowment	25,000	—	—	25,000
Withdrawal to finance capital expenditures	(134,707)	—	—	(134,707)
Other changes	(1,859)	361	—	(1,498)
Total other changes in endowment investments	(111,566)	361	10	(111,195)
Net change in endowment investments	(88,815)	1,355	10	(87,450)
Endowment investments at:				
Beginning of year	796,105	67,279	6,072	869,456
End of year	$ 707,290	68,634	6,082	782,006
Net assets by type of fund				
Donor-restricted “true” endowment	$ —	68,634	6,082	74,716
Board-designated “funds functioning as endowment"	707,290	—	—	707,290
Total – as above	$ 707,290	68,634	6,082	782,006

Included in board-designated “funds functioning as endowment” are $173,791 of net assets that are separately invested by the Medical Center.

(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, 2014:

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

(d) Interpretation of Relevant Law

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

(In thousands of dollars)

(e) Endowment Payout

Approximately 96% 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, 2014 and 2013. Periodically, the University's Board will adjust the endowment payout to fund specifically approved strategic initiatives.

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

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

	2014				2013
	University	Medical Center	MBL	Consolidated	Consolidated
TRIP formula payout	$ 297,388	34,038	3,658	335,084	306,488
Payout from separately invested endowment	7,573	10,084	—	17,657	21,772
Special payouts:					
Alumni Relations and Development	19,466	—	—	19,466	18,718
Strategic initiatives	21,880	—	—	21,880	22,403
Total	$ 346,307	44,122	3,658	394,087	369,381

(f) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted "true" endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, which, as of June 30, 2014 and 2013, amounted to $808 and $3,972, respectively, for the University.

(In thousands of dollars)

(6) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2014 and 2013 are shown as follows:

	2014			2013
	Receivable	Allowance for doubtful accounts	Net receivable	Net receivable
University:				
Patients	$ 21,515	(1,335)	20,180	21,326
Students:				
Loans	46,383	(2,500)	43,883	43,448
Tuition and fees	4,544	(1,300)	3,244	3,000
U.S. government	46,874	—	46,874	31,422
All other	87,336	(4,920)	82,416	84,038
Total University	206,652	(10,055)	196,597	183,234
Medical Center	226,639	(41,874)	184,765	204,279
MBL	4,316	(35)	4,281	
Total	$ 437,607	(51,964)	385,643	387,513

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

(7) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2014 and 2013 are shown as follows:

	2014				2013
	University	Medical Center	MBL	Consolidated	Consolidated
Land	$ 121,446	36,008	53,083	210,537	120,225
Buildings	3,143,239	1,288,213	99,996	4,531,448	4,172,340
Equipment	467,228	515,713	22,518	1,005,459	1,026,433
Books	324,024	—	842	324,866	306,212
Construction in progress	414,555	58,313	458	473,326	344,401
Subtotal	4,470,492	1,898,247	176,897	6,545,636	5,969,611
Less accumulated depreciation	(1,632,207)	(698,340)	(63,502)	(2,394,049)	(2,236,223)
Subtotal	2,838,285	1,199,907	113,395	4,151,587	3,733,388
Office building held for sale	97,518	—	—	97,518	—
Total	$ 2,935,803	1,199,907	113,395	4,249,105	3,733,388

On July 25, 2014, the University sold the office building held for sale for $112,000.

(In thousands of dollars)

(8) Notes and Bonds Payable

Notes and bonds payable at June 30, 2014 and 2013 are shown as follows:

	Fiscal year maturity	Interest rate	2014	2013
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA)	—	—	$ —	3,930
Illinois Finance Authority (IFA)	2035–2053	3.2–5.6	1,398,850	1,403,469
Taxable bonds	2031–2046	4.2–5.2	691,005	693,355
Unamortized premium			65,274	66,034
Total fixed rate			2,155,129	2,166,788
Variable rate:				
IEFA	2026–2037	0.1–1.9	302,542	303,821
IFA	2035	0.1	84,291	86,817
Taxable commercial paper ($200,000 available)	2014	0.1	150,000	100,000
Bank lines of credit ($350,000 available)	2015	0.1	138,200	75,000
Total variable rate			675,033	565,638
Total University			2,830,162	2,732,426
Medical Center:				
Fixed rate:				
Illinois Health Facilities Authority (IHFA)	2015	5.0	7,410	14,530
IFA	2027–2045	3.9–5.5	719,655	722,920
Unamortized premium			9,797	11,163
Total fixed rate			736,862	748,613
Variable rate:				
IEFA	2020	3.1	24,706	686
IEFA	2038	0.1	79,517	81,427
Bank line of credit ($15,000 available)	2015	—	—	—
Total variable rate			104,223	82,113
Total Medical Center			841,085	830,726
MBL:				
Fixed rate:				
Massachusetts Development Finance Authority	2015–2018	3.5	29,615	—
Variable rate:				
Bank line credit ($3,000 available)	2015	—	—	—
Total MBL			29,615	—
Total notes and bonds payable			$ 3,700,862	3,563,152

As of June 30, 2014, the University, Medical Center, and MBL fixed rate notes and bonds payable include variable rate debt with interest rates that have been fixed through interest rate swap agreements which amounted to $186,905, $325,000, and $29,615, respectively. As of June 30, 2013, University and Medical Center variable to fixed rate swap agreements amounted to $189,749 and $325,000, respectively.

(In thousands of dollars)

(a) Fiscal 2014 Transactions

During fiscal year 2014, the University 1) increased its bank lines of credit from $250,000 to $350,000 to provide financing flexibility for the construction and renovation of certain educational and research facilities and 2) issued an additional $50,000 in taxable commercial paper to help finance the purchase of an office building.

During fiscal year 2013, the Medical Center entered into an issuance of a $75,000 tax-exempt direct purchase loan through the IFA (Series 2013A) to finance the construction of a parking garage. Bond proceeds will be drawn down over time as construction of the parking garage proceeds. Interest is payable each month based on the outstanding principle balance of the loan.

(b) Defeased Debt

As of June 30, 2014 and 2013, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was $102,935 and $291,040, respectively.

(c) Interest Rate Swaps

At June 30, 2014 and 2013 the fair value of the interest rate swap agreements was an accrued liability of $139,108 and $126,276, respectively as follows:

		2014	2013
University	$	39,138	37,507
Medical Center		95,810	88,769
MBL		4,160	—
Total	$	139,108	126,276

Changes in the fair value of the interest rate swap agreements are included in other unrestricted nonoperating changes in the accompanying consolidated statements of activities for the years ended June 30, 2014 and 2013 as follows:

		2014	2013
University	$	(1,631)	23,207
Medical Center		(5,914)	47,103
MBL		(32)	—
Total	$	(7,577)	70,310

(Continued)

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. Cash settlement payments are recorded in interest expense. These payments were $12,400 and $4,300 for 2014 and 2013, respectively.

The Medical Center is required to provide collateral on one of the interest rate swap agreements when the liability of that swap exceeds $50,000. If the Medical Center's credit rating were to be downgraded one level; collateral would need to be provided under the swap with JP Morgan when the liability of that swap exceeds $40,000 and under the Wells Fargo swap when the liability of that swap exceeds $60,000. Upon further downgrade, the collateral requirements increase. At June 30, 2014 and 2013, there was no collateral required.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2015 through 2019 are approximately $14,539, $25,901, $39,218, $54,831 and $19,964, respectively.

Principal payments required in each of the five years ending June 30, 2015 through 2019 for the Medical Center notes and bonds are approximately $10,050, $12,778, $13,255, $13,868, and $14,513, respectively.

Principal payments required in each of the five years ending June 30, 2015 through 2019 for MBL's notes and bonds are approximately $830, $860, $895, $930, and $965, respectively.

(e) Collateral

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

(f) Remarketing

Included in the University, Medical Center, and MBL's notes and bonds payable are $861,938, $429,223, and $29,615, respectively, of variable rate notes and bonds maturing through fiscal year 2045. In the event the University, Medical Center, or MBL's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University, Medical Center, and MBL have standby bond purchase agreements totaling $300,000, $404,517, and $29,891, respectively, which support variable rate debt in the event of a failed remarketing.

(In thousands of dollars)

In addition, the University has a standby bond purchase agreement of $109,170 in support of its IFA variable rate bonds, which, through an interest rate swap agreement, carry a synthetically fixed interest rate.

(g) Subsequent Event

In August 2014, the University issued $573,645 in fixed rate bonds through the IFA and $175,685 in taxable fixed rate bonds. Proceeds were used to 1) advance refund $397,905 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational facilities.

(9) Pledges

Pledges receivable at June 30, 2014 and 2013 are shown as follows:

	2014				2013
	University	Medical Center	MBL	Consolidated	Consolidated
Unconditional promises expected to be collected in:					
Less than one year	$ 128,654	2,420	965	132,039	81,407
One year to five years	243,305	2,142	759	246,206	189,203
More than five years	234,530	—	20	234,550	235,448
	606,489	4,562	1,744	612,795	506,058
Less unamortized discount and allowance for uncollectible pledges	(103,222)	(71)	(137)	(103,430)	(83,733)
Total	$ 503,267	4,491	1,607	509,365	422,325

The University’s five largest pledges comprise 91% of pledges expected to be collected in more than five years. Included in this amount is the estimated fair value of a nonmarketable equity investment (based on discounted cash flow and market multiples) specifically aligned with a promise to give, the proceeds of which, when sold, will be used to satisfy the pledge.

In addition, at June 30, 2014, the University has received $287,480 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, or future income from pledged investments. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(In thousands of dollars)

(10) Self-Insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the years ended June 30, 2014 and 2013, was $5,000 per claim and unlimited in the aggregate. Claims in excess of $5,000 are subject to an additional self-insurance retention limited to $12,500 per claim and $12,500 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

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

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately $43,113 higher than the amount recorded in the consolidated financial statements at June 30, 2014. The interest rate assumed in determining the present value was 4.25%. The University recorded unrestricted nonoperating actuarial income adjustments of $(3,756) and $18,860 during the years ended June 30, 2014 and 2013, respectively, which are included in the accompanying consolidated statements of activities.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2014 and 2013 is presented as follows:

	2014			2013
	University	Medical Center	Consolidated	Consolidated
Medical malpractice	$ 238,552	—	238,552	254,328
Workers' compensation	6,855	8,241	15,096	15,143
Others	4,114	—	4,114	4,221
Total	$ 249,521	8,241	257,762	273,692

(11) Pension Plans and Other Postretirement Benefits

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

(In thousands of dollars)

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

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	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 795,133	780,797	252,747	274,092
Service cost	35,779	33,211	10,112	12,654
Interest cost	38,291	34,411	11,165	11,142
Benefits paid	(39,285)	(36,216)	(9,520)	(7,816)
Plan amendment	—	—	(50,613)	—
Actuarial (gain) loss, net	86,873	(17,070)	9,618	(37,325)
Benefit obligation at end of year	916,791	795,133	223,509	252,747
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	557,966	496,657	5,002	1
Actual return on plan assets	88,112	32,525	2,087	1
Employer contributions	65,000	65,000	23,520	12,816
Benefits paid	(39,285)	(36,216)	(9,520)	(7,816)
Fair value of plan assets at end of year	671,793	557,966	21,089	5,002
Funded status – liability	$ (244,998)	(237,167)	(202,420)	(247,745)

The accumulated benefit obligation for the defined benefit pension plans was $784,550 and $682,611 at June 30, 2014 and 2013, respectively.

(In thousands of dollars)

(a) Components of Net Periodic Benefit Cost

	Defined benefit pension plans		Other postretirement benefit plans	
	2014	**2013**	**2014**	**2013**
Service cost	$ 35,779	33,211	10,112	12,654
Interest cost	38,291	34,411	11,165	11,142
Expected return on plan assets	(37,013)	(36,714)	(1,228)	(368)
Amortization of prior service cost (benefit)	1,134	1,134	(5,705)	(2,105)
Amortization of transition obligation	—	—	—	800
Amortization of actuarial loss	24,811	27,371	5,723	8,130
Net periodic benefit cost	$ 63,002	59,413	20,067	30,253
Amounts included in the consolidated statements of activities:				
University	$ 30,502	26,913	20,067	30,253
Medical Center	32,500	32,500	—	—
Total	$ 63,002	59,413	20,067	30,253

(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	
	2014	**2013**	**2014**	**2013**
Discount rate	4.3%	4.9%	4.4%	5.1%
Expected return on plan assets	6.5	6.5	6.5	7.0
Rate of compensation increase	3.5	3.5	3.5	3.5
Healthcare cost trend rates:				
Next two fiscal years			6.7%–7.0%	7.2%–7.5%
Next seven fiscal years			5.3%–6.5%	5.7%–7.0%
Thereafter			4.5%–5.1%	4.5%–5.5%

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

(Continued)

(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:

		2014	2013
Effect on total service cost and interest cost:			
One-percentage-point increase	$	4,248	5,201
One-percentage-point decrease		(3,240)	(3,931)
Effect on year-end postretirement benefit obligation:			
One-percentage-point increase	$	34,743	39,232
One-percentage-point decrease		(27,553)	(31,294)

(c) Plan Assets

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2014	2013	2014	2013
Domestic public equities	28%	29%	51%	—%
International public equities	18	15	—	—
Fixed income	54	56	49	100
	100%	100%	100%	100%

As of June 30, 2014, 86% 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 assets are invested in commingled funds and limited partnerships generally valued based on quoted market prices in active markets valued based, NAV reported by external fund managers, or independently determined by the University. The remaining 14% of the plan assets are categorized as Level 2 or Level 3.

The defined benefit plans combined target asset allocation of 45% public equities and 55% 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, 2014.

(d) Contributions

The University expects to make a $7,955 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a $65,000 contribution to the defined benefit pension plans in fiscal year 2015.

(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
2015	$	70,010	8,464
2016		46,975	8,531
2017		48,850	9,138
2018		50,719	9,403
2019		52,682	10,190
2020 – 2024		306,906	60,026

(f) Prescription Drug Act

The Medicare Prescription Drug, Improvement, and Modernization Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. Effective January 1, 2014, the University ceased its participation in the Part D Retiree Drug Subsidy (RDS) program and began providing prescription drug benefits to Medicare eligible retirees through an Employer Group Waiver Plan (EGWP) design. As a result, the University is eligible for reimbursement from the federal government prescription drug program and, in addition, is eligible for government mandated rebates from pharmaceutical companies that participate in the Medicare Part D program. The University has recognized the effect of these subsidies in the calculation of its postretirement benefit obligation, the impact of which was to reduce the benefit obligation by $50.6 million at June 30, 2014.

(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, 2014 and 2013, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of $3,259 and $5,730 at June 30, 2014 and 2013, respectively.

(h) Defined Contribution Pension Plan

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to $47,727 in fiscal year 2014 and $46,690 in fiscal year 2013 for the University and $11,700 in fiscal year 2014 and $11,300 in fiscal year 2013 for the Medical Center.

(In thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2014 and 2013 are shown as follows:

		2014	2013
University:			
Academic and research:			
Instruction	$	947,614	863,162
Research		250,469	262,292
Auxiliary enterprises		144,301	134,842
Library		17,524	17,216
Student services		70,098	62,812
Operation and maintenance of physical plant		136,180	120,368
Depreciation		129,244	123,280
Interest on notes and bonds		69,047	65,156
Total academic and research		1,764,477	1,649,128
Administration:			
Institutional support		116,537	145,938
Informational services		55,170	63,557
Development and alumni relations		68,458	64,528
Operation and maintenance of physical plant		11,172	9,688
Depreciation		30,479	29,394
Interest on notes and bonds		26,236	23,281
Total administration		308,052	336,386
Total University		2,072,529	1,985,514
Medical Center:			
Healthcare service		1,285,218	1,177,672
General and administrative		92,922	80,938
Total Medical Center		1,378,140	1,258,610
MBL:			
Academic and research		40,276	
General and administrative		5,357	
Total MBL		45,633	
Total University	$	3,496,302	3,244,124

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.

(13) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's Board of Trustees are faculty members or officers of the University. Program-related revenue for the years ended December 31, 2013 and 2012 was $154,621 and $136,962, respectively. Net assets at December 31, 2013 and 2012 were $29,158 and $25,586, 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 $762,814 for ANL and $386,600 for Fermilab in fiscal year 2014, and $796,737 for ANL and $420,030 for Fermilab in fiscal year 2013 are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

(14) Contingencies

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

Schedule 1

THE UNIVERSITY OF CHICAGO

Combining Balance Sheet

June 30, 2014

(In thousands of dollars)

Assets		**University**	**Medical Center**	**MBL**	**2014 Consolidated**
Cash and cash equivalents	$	19,985	79,698	3,327	103,010
Notes and accounts receivable, net		196,597	184,765	4,281	385,643
Prepaid expenses and other assets		65,270	51,071	2,372	118,713
Pledges receivable, net		503,267	4,491	1,607	509,365
Investments		7,126,781	1,021,671	83,598	8,232,050
Land, buildings, equipment, and books, net		2,935,803	1,199,907	113,395	4,249,105
Total assets	$	10,847,703	2,541,603	208,580	13,597,886
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$	397,557	339,288	9,778	746,623
Deferred revenue		84,791	—	3,597	88,388
Assets held in custody for others		61,469	—	689	62,158
Self-insurance liability		249,521	8,241	—	257,762
Pension and other postretirement benefit obligations		447,418	3,259	—	450,677
Asset retirement obligation		51,955	7,828	—	59,783
Notes and bonds payable		2,830,162	841,085	29,615	3,700,862
Refundable U.S. government student loan funds		38,711	—	—	38,711
Total liabilities		4,161,584	1,199,701	43,679	5,404,964
Net assets:					
Unrestricted		1,470,443	1,245,856	88,879	2,805,178
Temporarily restricted		3,532,094	87,954	24,376	3,644,424
Permanently restricted		1,683,582	8,092	51,646	1,743,320
Total net assets		6,686,119	1,341,902	164,901	8,192,922
Total liabilities and net assets	$	10,847,703	2,541,603	208,580	13,597,886

See accompanying independent auditors’ report.

Schedule 2

THE UNIVERSITY OF CHICAGO

Combining Statement of Activities

Year ended June 30, 2014

(In thousands of dollars)

		University	Medical Center	MBL	2014 Consolidated
Changes in unrestricted net assets:					
Operating:					
Revenue:					
Tuition and fees – gross	$	704,846	—	1,885	706,731
Less student aid		(326,592)	—	(926)	(327,518)
Tuition and fees – net		378,254	—	959	379,213
Government grants and contracts		329,212	—	15,638	344,850
Private gifts, grants, and contracts		229,452	369	6,707	236,528
Endowment payout		344,338	44,122	3,658	392,118
Earnings on other investments		3,905	—	(6)	3,899
Patient care		239,985	1,353,926	—	1,593,911
Auxiliaries		204,501	—	4,224	208,725
Other income		247,182	36,170	1,163	284,515
Net assets released from restrictions		72,742	—	2,273	75,015
Total operating revenue		2,049,571	1,434,587	34,616	3,518,774
Expenses:					
Compensation:					
Academic salaries		496,711	—	8,949	505,660
Staff salaries		528,646	497,710	7,828	1,034,184
Benefits		282,133	129,878	5,556	417,567
Total compensation		1,307,490	627,588	22,333	1,957,411
Other operating expenses:					
Utilities, alterations, and repairs		54,552	33,588	2,266	90,406
Depreciation		159,723	83,563	4,688	247,974
Interest		95,283	33,354	1,279	129,916
Supplies, services, and other		432,456	584,702	14,947	1,032,105
Insurance		23,025	15,345	120	38,490
Total other operating expenses		765,039	750,552	23,300	1,538,891
Total operating expenses		2,072,529	1,378,140	45,633	3,496,302
Excess (deficiency) of operating revenue over expenses		(22,958)	56,447	(11,017)	22,472

(Continued)

Schedule 2

THE UNIVERSITY OF CHICAGO

Combining Statement of Activities

Year ended June 30, 2014

(In thousands of dollars)

		University	Medical Center	MBL	2014 Consolidated
Changes in unrestricted net assets:					
Nonoperating:					
Investment gains	$	117,316	60,501	1,028	178,845
Postretirement benefit changes other than net periodic benefit cost		32,041	1,337	638	34,016
Affiliation - MBL net assets as of July 1, 2013		—	—	89,999	89,999
Change in value of derivative instruments		(1,631)	(5,914)	(32)	(7,577)
Other, net		(17,667)	(16,142)	8,263	(25,546)
Change in unrestricted net assets from nonoperating activities		130,059	39,782	99,896	269,737
Increase in unrestricted net assets		107,101	96,229	88,879	292,209
Changes in temporarily restricted net assets:					
Private gifts		166,036	4,007	2,085	172,128
Investment gains		306,283	9,298	8,211	323,792
Affiliation - MBL net assets as of July 1, 2013		—	—	16,730	16,730
Other, net		(25,934)	(7,322)	(377)	(33,633)
Net assets released from restrictions		(72,742)	—	(2,273)	(75,015)
Increase in temporarily restricted net assets		373,643	5,983	24,376	404,002
Changes in permanently restricted net assets:					
Private gifts		116,684	2,000	358	119,042
Affiliation - MBL net assets as of July 1, 2013		—	—	51,256	51,256
Endowment payout		1,969	—	—	1,969
Investment losses		(3,013)	—	—	(3,013)
Other, net		22,204	—	32	22,236
Increase in permanently restricted net assets		137,844	2,000	51,646	191,490
Increase in net assets		618,588	104,212	164,901	887,701
Net assets at beginning of year		6,067,531	1,237,690	—	7,305,221
Net assets at end of year	$	6,686,119	1,341,902	164,901	8,192,922

See accompanying independent auditors’ report.

Schedule 3

THE UNIVERSITY OF CHICAGO

Combining Statement of Cash Flows

Year ended June 30, 2014

(In thousands of dollars)

	University	Medical Center	MBL	2014 Consolidated
Cash flows from operating activities:				
Increase in net assets	$ 618,588	104,212	164,901	887,701
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Affiliation - MBL net assets as of July 1, 2013	—	—	(157,985)	(157,985)
Depreciation	159,723	83,563	4,688	247,974
Change in value of derivative instruments	1,631	7,041	32	8,704
Loss on disposal of land, buildings, equipment, and books	9,624	1,071	—	10,695
Net gain on investments	(666,083)	(110,459)	(9,498)	(786,040)
Private gifts and grants restricted for long-term investment	(282,720)	(4,008)	(314)	(287,042)
Other nonoperating changes	120,186	73,693	(7,927)	185,952
Postretirement benefit changes other than net periodic benefit cost	(32,041)	(1,373)	—	(33,414)
Changes in operating assets and liabilities:				
Notes and accounts receivable	(13,121)	19,514	2,922	9,315
Prepaid expenses and other assets	(10,883)	(862)	(667)	(12,412)
Accounts payable and other liabilities	49,418	27,086	(948)	75,556
Self-insurance liability	(14,643)	(1,287)	—	(15,930)
Total adjustments	(678,909)	93,979	(169,697)	(754,627)
Net cash provided by (used in) operating activities	(60,321)	198,191	(4,796)	133,074
Cash flows from investing activities:				
Affiliation - MBL cash and cash equivalents as of July 1, 2013	—	—	1,543	1,543
Purchase of investments	(1,414,351)	(422,420)	(121,244)	(1,958,015)
Proceeds from sale of investments	1,843,221	308,524	121,656	2,273,401
Acquisition of land, buildings, equipment, and books	(548,519)	(100,571)	(1,207)	(650,297)
Loans disbursed	(6,844)	—	—	(6,844)
Principal collected on loans	6,602	—	—	6,602
Net cash used in investing activities	(119,891)	(214,467)	748	(333,610)
Cash flows from financing activities:				
Proceeds from issuance of debt instruments	1,388,101	24,020	—	1,412,121
Principal payments on debt instruments	(1,290,365)	(24,026)	(800)	(1,315,191)
Proceeds from private gifts and grants restricted for long-term investment	126,443	4,225	314	130,982
Other nonoperating changes	(49,560)	(72,749)	7,861	(114,448)
Net cash provided by (used in) financing activities	174,619	(68,530)	7,375	113,464
Increase (decrease) in cash and cash equivalents	(5,593)	(84,806)	3,327	(87,072)
Cash and cash equivalents at:				
Beginning of year	25,578	164,504	—	190,082
End of year	$ 19,985	79,698	3,327	103,010
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 105,549	33,569	1,347	140,465

See accompanying independent auditors' report.