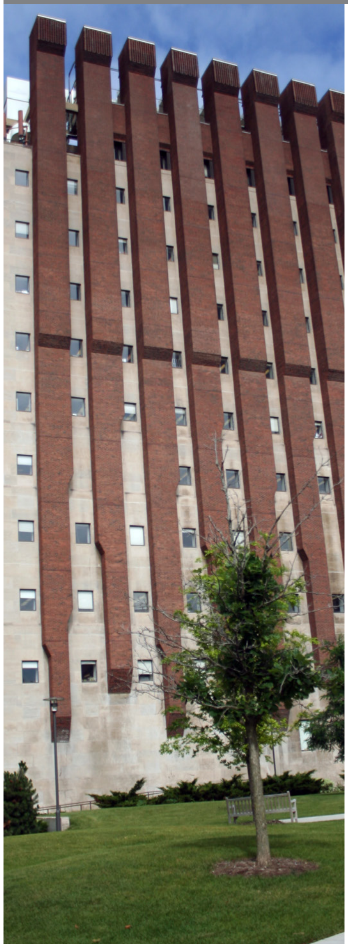
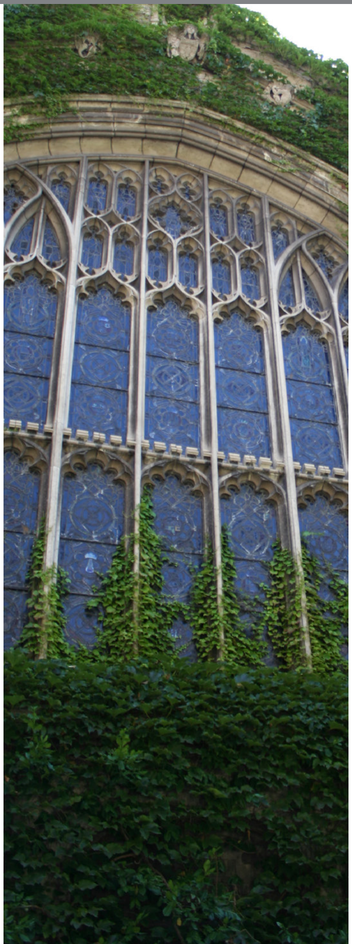
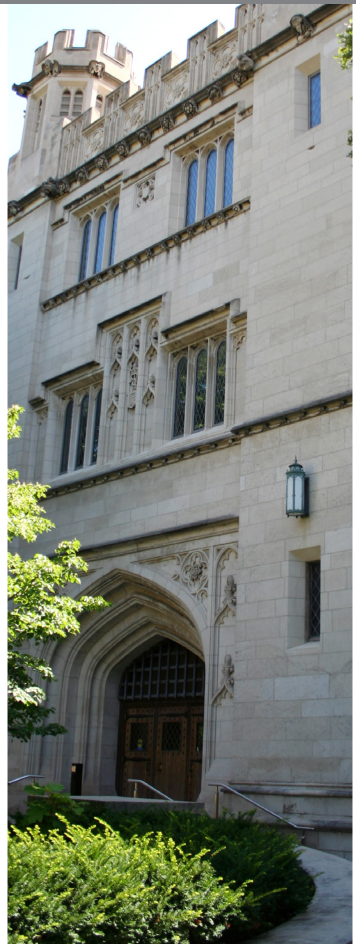



The University of Chicago

2015-2016

Financial Statements and Supplemental University Information


THE UNIVERSITY OF CHICAGO

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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 49, 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. 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.

John R. Kroll
Acting Chief Financial Officer

James R. Ribikawskis
Executive Director, Accounting
and Financial Reporting

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

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, 2016 and 2015, 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 2015 financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 19% and total revenues constituting 43% of the related consolidated totals in 2015. 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 for 2015, 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.

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Chicago as of June 30, 2016 and 2015, 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.

Report on Summarized Comparative Information

We have previously audited The University of Chicago's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which is has been derived.

Other Matters

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

The Management's Responsibility Report has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Chicago, Illinois
November 2, 2016

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2016 and 2015

(In thousands of dollars)

Assets		**2016**	**2015**
Cash and cash equivalents	$	72,119	198,355
Notes and accounts receivable, net		517,245	426,799
Prepaid expenses and other assets		149,459	150,883
Pledges receivable, net		612,672	522,820
Investments		7,999,523	8,365,085
Land, buildings, equipment, and books, net		4,674,581	4,409,265
Total assets	$	14,025,599	14,073,207
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	923,003	827,935
Deferred revenue		116,108	104,294
Assets held in custody for others		110,556	65,785
Self-insurance liability		256,947	270,903
Pension and other postretirement benefit obligations		570,276	478,141
Asset retirement obligation		57,292	59,118
Notes and bonds payable		4,513,220	4,185,939
Refundable U.S. government student loan funds		39,414	39,041
Total liabilities		6,586,816	6,031,156
Net assets:			
Unrestricted		2,104,760	2,597,309
Temporarily restricted		3,298,132	3,588,616
Permanently restricted		2,035,891	1,856,126
Total net assets		7,438,783	8,042,051
Total liabilities and net assets	$	14,025,599	14,073,207

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2016 and 2015

(In thousands of dollars)

		2016	2015
Changes in unrestricted net assets:			
Operating:			
Revenue:			
Tuition and fees – gross	$	780,083	737,883
Less student aid		(384,309)	(348,920)
Tuition and fees – net		395,774	388,963
Government grants and contracts		364,940	357,061
Private gifts, grants, and contracts		219,857	241,430
Endowment payout		466,478	439,221
Earnings on other investments		2,319	1,323
Patient service		1,746,208	1,681,002
Auxiliaries		217,420	218,334
Other income		360,486	301,734
Net assets released from restrictions		83,716	87,400
Total operating revenue		3,857,198	3,716,468
Expenses:			
Compensation:			
Academic salaries		549,422	526,371
Staff salaries		1,133,161	1,097,039
Benefits		453,438	456,093
Total compensation		2,136,021	2,079,503
Other operating expenses:			
Utilities, alterations, and repairs		77,732	83,386
Depreciation		280,768	255,972
Interest		145,667	131,910
Supplies, services, and other		1,144,956	1,109,505
Insurance		28,785	42,821
Total other operating expenses		1,677,908	1,623,594
Total operating expenses		3,813,929	3,703,097
Excess of operating revenue over expenses	$	43,269	13,371

(Continued)

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2016 and 2015

(In thousands of dollars)

		2016	2015
Changes in unrestricted net assets:			
Nonoperating:			
Investment losses	$	(276,109)	(101,434)
Postretirement benefit changes other than net periodic benefit cost		(142,939)	(29,718)
Defined benefit pension plan curtailment (partial)		45,926	—
Change in value of derivative instruments		(74,139)	(18,775)
Loss on debt refinancing		(16,946)	(70,958)
Other, net		(71,611)	(355)
Change in unrestricted net assets from nonoperating activities		(535,818)	(221,240)
Decrease in unrestricted net assets		(492,549)	(207,869)
Changes in temporarily restricted net assets:			
Private gifts		157,496	143,635
Investment losses		(360,179)	(67,023)
Other, net		(4,085)	(45,020)
Net assets released from restrictions		(83,716)	(87,400)
Decrease in temporarily restricted net assets		(290,484)	(55,808)
Changes in permanently restricted net assets:			
Private gifts		165,807	81,619
Endowment payout		1,990	1,880
Investment losses		(3,342)	(426)
Other, net		15,310	29,733
Increase in permanently restricted net assets		179,765	112,806
Decrease in net assets		(603,268)	(150,871)
Net assets at beginning of year		8,042,051	8,192,922
Net assets at end of year	$	7,438,783	8,042,051

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands of dollars)

		2016	2015
Cash flows from operating activities:			
Decrease in net assets	$	(603,268)	(150,871)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:			
Depreciation		280,768	255,972
Change in value of derivative instruments		78,334	21,016
Loss on debt refinancing		16,946	70,258
Loss on disposal of land, buildings, equipment, and books		5,623	3,541
Gain on sale of property		(61,053)	(8,217)
Donated property		—	(4,726)
Net (gain) loss on investments		245,222	(185,883)
Private gifts and grants restricted for long-term investment		(317,371)	(222,321)
Other nonoperating changes		167,948	171,135
Postretirement benefit changes other than net periodic benefit cost		97,013	29,718
Changes in operating assets and liabilities:			
Notes and accounts receivable		(94,477)	(40,131)
Prepaid expenses and other assets		11,875	(52,119)
Accounts payable and other liabilities		66,087	66,426
Self-insurance liability		(9,246)	13,141
Total adjustments		487,669	117,810
Net cash used in operating activities		(115,599)	(33,061)
Cash flows from investing activities:			
Purchase of investments		(1,106,553)	(1,739,633)
Proceeds from sale of investments		1,224,468	1,790,492
Acquisition of land, buildings, equipment, and books		(573,647)	(503,871)
Acquisition of physician practice		(1,447)	—
Proceeds from sale of property		70,100	110,462
Loans disbursed		(7,055)	(7,262)
Principal collected on loans		7,435	7,522
Net cash used in investing activities		(386,699)	(342,290)
Cash flows from financing activities:			
Proceeds from issuance of debt instruments		1,980,981	2,399,654
Principal payments on debt instruments		(1,670,084)	(1,965,352)
Proceeds from private gifts and grants restricted for long-term investment		162,844	138,597
Other nonoperating changes		(97,679)	(102,203)
Net cash provided by financing activities		376,062	470,696
Increase (decrease) in cash and cash equivalents		(126,236)	95,345
Cash and cash equivalents at:			
Beginning of year		198,355	103,010
End of year	$	72,119	198,355
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	147,347	134,121

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

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

(b) Basis of Presentation

The consolidated financial statements of the University have been prepared 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:

	2016		2015	
Detail of net assets	**Temporarily restricted**	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
University:				
Operating	$ 33,682	—	18,005	—
Pledges	438,350	165,464	408,579	110,557
Student loans	—	23,555	—	21,794
Endowment	2,531,298	1,745,000	2,856,193	1,624,856
Annuity and life income	24,788	37,669	27,139	37,805
Net investment in physical properties	167,030	—	168,499	—
Subtotal	3,195,148	1,971,688	3,478,415	1,795,012
Medical Center:				
Operating	10,384	—	9,927	—
Pledges	4,140	10	2,614	10
Endowment	67,401	8,102	73,568	8,092
Subtotal	81,925	8,112	86,109	8,102
Marine Biological Laboratory:				
Operating	4,157	—	2,894	—
Pledges	1,337	3,371	396	664
Annuity and life income	791	416	968	457
Endowment	14,774	52,304	19,834	51,891
Subtotal	21,059	56,091	24,092	53,012
Total	$ 3,298,132	2,035,891	3,588,616	1,856,126

(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 the date of gift. Pledges receivable are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Revenue from government and private grant and contract agreements 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, 2016 and 2015 are $50,326 and $46,533, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2016 and 2015 consist of the following:

		2016				2015
		University	Medical Center	MBL	Consolidated	Consolidated
Private gifts:						
Unrestricted as to use	$	16,998	222	1,202	18,422	23,880
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue		113,215	—	—	113,215	122,025
Private grants and contracts		82,389	—	5,831	88,220	95,525
Total	$	212,602	222	7,033	219,857	241,430

(f) Patient Service

Patient service revenue is reported net of a provision for doubtful accounts of $6,997 and $6,450 for the University and $84,243 and $52,166 for the Medical Center for the years ended June 30, 2016 and 2015, respectively. This provision reflects the estimated net realizable amounts due from third-party payors for services rendered. The Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts receivable. A majority of patient service 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. The Medical Center's gross write-offs increased from approximately $128,000 for fiscal year 2015 to $146,000 in fiscal year 2016. The Medical Center did not have significant write-offs from third-party payors.

(g) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2016 and 2015, the amount of interest capitalized amounted to $12,288 and $17,480 for the University and $3,168 and $321 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, 2016 and 2015, 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, 2016 and 2015 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, 2016 and 2015, the University had liabilities of $55,669 and $55,757 associated with its charitable remainder trust and gift annuity contracts and deferred revenue of $5,474 and $5,441 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 consist of resources, primarily investments, held by the University as a custodian for affiliated organizations. Investments held for others are included in the University's investment portfolio. The leveling of these investments is presented in Note 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.

(In thousands of dollars)

- ***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 their estimated fair value.

(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, 2016 and 2015 and for the fiscal years then ended:

	2016		
	Gross notional	**Net notional**	**Gain (loss)**
Equity derivatives	$ 19,638	19,638	(11,145)

	2015		
	Gross notional	**Net notional**	**Gain (loss)**
Interest rate derivatives	$ —	—	68
Currency derivatives	—	—	1,791
Equity derivatives	105,371	105,371	9,479
Total	$ 105,371	105,371	11,338

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 (losses) 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 2016 and 2015, 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) Recent Accounting Pronouncement

During 2016, the University adopted ASU No. 2015-03 – *Implementation of Interest (Subtopic 835-30): The Presentation of Debt Issuance Costs.* This guidance requires debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability versus being shown on the balance sheet as a prepaid expense.

(m) Reclassification

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

(n) Subsequent Events

The University has performed an evaluation of subsequent events through November 2, 2016 which is the date the consolidated financial statements were issued.

In August 2016, the University increased its available operating lines of credit from $350 million to $500 million.

In October 2016, the University sold twelve residential properties previously held for sale for $54,475. See note 7.

In November 2015, the Medical Center signed a letter of intent to combine with Ingalls Health System, an independent health system serving Chicago's south suburbs. The agreement was finalized on October 1, 2016.

(2) The University of Chicago Medical Center

(a) Organization

The Medical Center, an Illinois not-for-profit corporation, operates the Center for Care and Discovery, the Bernard Mitchell Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, the University of Chicago Medicine Care Network, 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 $328,591 and $308,070 for the years ended June 30, 2016 and 2015, 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 $45,045 in fiscal year 2016 and $43,895 in 2015 have been recorded as unrestricted operating revenue and (2) transfers to the University of $68,843 in fiscal year 2016 and $72,935 in fiscal year 2015 have been recorded as a reduction of other income.

(3) Marine Biological Laboratory (MBL)

(a) Organization

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

(b) 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's financial position and changes in net assets in the consolidated financial statements reflect fiscal year activity for the period July 1 to June 30.

(In thousands of dollars)

(4) Investments

Investments at June 30, 2016 and 2015 are comprised of the following:

		2016 Consolidated	2015 Consolidated
Cash equivalents	$	233,304	278,050
Global public equities (primarily international)		1,774,567	1,684,934
Private debt		358,522	310,194
Private equity:			
U.S. venture capital		375,962	423,235
U.S. corporate finance		311,726	364,835
International		401,184	417,389
Real estate		485,153	520,908
Natural resources		459,791	510,739
Absolute return:			
Equity-oriented		768,992	692,499
Global macro/relative value		511,965	559,346
Multistrategy		580,936	588,082
Credit-oriented		365,223	339,943
Protection-oriented		140,332	147,747
Fixed income:			
U.S. treasuries, including TIPS		309,290	479,686
Other fixed income (primarily credit funds)		665,928	902,035
Funds in trust		256,648	145,463
Total	$	7,999,523	8,365,085

(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.

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 and are valued based on quoted market prices in active markets, except for a commingled fund that is valued on independently determined NAV.

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

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

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.

(In thousands of dollars)

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2016 and 2015. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

(c) Fair Value Hierarchy of Investments

Following is the fair value hierarchy of investments as of June 30, 2016:

		Level 1	Level 2	2016 Consolidated total
Cash equivalents	$	233,304	—	233,304
Global public equities (primarily international)		452,674	44,181	496,855
Real estate funds		50,282	—	50,282
Absolute return:				
Equity-oriented		—	50,617	50,617
Global macro / relative value		85,888	26,015	111,903
Fixed income:				
U.S. treasuries, including TIPS		309,291	—	309,291
Other fixed income (primarily credit funds)		546,023	—	546,023
Funds in trust		250,104	—	250,104
		1,927,566	120,813	2,048,379
Investments measured at net asset value				5,951,144
Total investments at fair value as of June 30, 2016				$ 7,999,523

(In thousands of dollars)

Following is the fair value hierarchy of investments as of June 30, 2015:

	Level 1	Level 2	2015 Consolidated total
Cash equivalents	$ 278,050	—	278,050
Global public equities (primarily international)	489,975	35,377	525,352
Real estate funds	20,990	—	20,990
Natural resources	32,628	—	32,628
Absolute return:			
Equity-oriented	—	99,516	99,516
Global macro/relative value	99,597	—	99,597
Fixed income:			
U.S. treasuries, including TIPS	420,130	—	420,130
Other fixed income (primarily credit funds)	822,400	—	822,400
Funds in trust	139,005	—	139,005
	2,302,775	134,893	2,437,668
Investments measured at net asset value			5,927,417
Total investments at fair value as of June 30, 2015			$ 8,365,085

During fiscal years 2016 and 2015, there were no transfers between investment Levels 1 and 2.

The University re-evaluated the application of the definition of readily determinable fair value in accordance with ASU 2015-10, *Technical Corrections and Improvements*, and has corrected the classification of investments totaling $99,516 previously shown as Investments measured at net asset value. These investments are now classified as level 2 investments in the 2015 table.

(In thousands of dollars)

A summary of the University's investment return for the years ended June 30, 2016 and 2015 is presented as follows:

	2016				2015
	University	Medical Center	MBL	Consolidated	Consolidated
Investment return:					
Interest and dividends	$ 63,882	11,141	745	75,768	117,703
Net realized and unrealized gains (losses)	(213,842)	(28,119)	(2,650)	(244,611)	155,838
Investment return	$ (149,960)	(16,978)	(1,905)	(168,843)	273,541

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, 2016, the University had unfunded commitments of $1,158,390, which are likely to be called through 2026. Details of these commitments are as follows:

	Unfunded commitments
Private equity	$ 453,886
Real estate	268,801
Natural resources	177,395
Absolute return	26,641
Private debt	231,667
Total	$ 1,158,390

(In thousands of dollars)

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

	Remaining life	**Redemption terms**	**Redemption restrictions and terms**	**Redemption restrictions or side pockets at June 30, 2016**
Cash	N/A	Daily	None	None
Global public equities:				
Commingled funds	N/A	Daily to triennial with notice periods of 2 to 180 days	Lock-up provisions for up to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	$0.3 million
Partnerships	N/A	Monthly to biennial with notice periods of 7 to 90 days	Lock-up provisions for up to 4 years, some investments have a portion of capital held in side pockets with no redemptions permitted	$33.0 million
Separate accounts	N/A	Daily with notice periods of 1 to 7 days	Lock-up provisions ranging for up to 1 year	None
Private debt:				
Drawdown partnerships	1 to 11 years	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Redemptions not permitted	Capital held in side pockets with no redemptions permitted	$0.8 million
Private equity				
Drawdown partnerships	1 to 21 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 1 day	None	None
Partnerships	N/A	Semi-annual with notice period of 90 days	A portion of capital is held in side pockets with no redemption permitted	$7.7 million

(In thousands of dollars)

	Remaining life	**Redemption terms**	**Redemption restrictions and terms**	**Redemption restrictions or side pockets at June 30, 2016**
Real estate				
Drawdown partnerships	1 to 16 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 5 days	None	None
Natural resources				
Drawdown partnerships	1 to 17 years	Redemptions not permitted	N/A	N/A
Commingled Funds	N/A	Daily with notice period of 1 day	None	None
Absolute return:				
Commingled funds	N/A	Daily to triennial with notice periods of 1 to 122 days	Lock-up provisions for up to 3 years, some investments have a portion of capital held in side pockets with no redemptions permitted	$19.8 million
Drawdown partnerships	1 to 4 years	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Quarterly to triennial with notice periods of 45 to 180 days	Lock-up provisions for up to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	$142.6 million
Fixed income:				
Commingled funds	N/A	Weekly to monthly with notice periods of 5 to 10 days	None	None
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None	None
Funds in Trust	N/A	Daily	None	None

(In thousands of dollars)

(5) Endowments

The University's endowment consists of approximately 4,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted "true" endowment funds and funds designated by the Board to function as endowments commonly referred to as "funds functioning as endowment". Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University, Medical Center, and MBL endowment each invest in an investment pool, the Total Return on Investment Pool (TRIP). As of June 30, 2016, 99%, 76%, and 100% of the University, Medical Center, and MBL endowments respectively, are invested in TRIP.

(a) University Endowment

Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2016:

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	$ 18,676	42,435	427	61,538
Net depreciation (realized and unrealized) on investments	(50,240)	(161,783)	(1,779)	(213,802)
Total investment return	(31,564)	(119,348)	(1,352)	(152,264)
Endowment payout	(180,291)	(233,090)	(1,990)	(415,371)
Net investment return	(211,855)	(352,438)	(3,342)	(567,635)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	223	114,272	114,495
Transfers to create funds functioning as endowment	24,445	—	—	24,445
Other changes	(24,645)	27,320	9,214	11,889
Total other changes in endowment investments	(200)	27,543	123,486	150,829
Net change in endowment investments	(212,055)	(324,895)	120,144	(416,806)
Endowment investments at:				
Beginning of year	1,980,760	2,856,193	1,624,856	6,461,809
End of year	$ 1,768,705	2,531,298	1,745,000	6,045,003
Investments by type of fund				
Donor-restricted "true" endowment	$ (26,452)	2,531,298	1,745,000	4,249,846
Board-designated "funds functioning as endowment"	1,795,157	—	—	1,795,157
Total – as above	$ 1,768,705	2,531,298	1,745,000	6,045,003

(Continued)

(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, 2015:

		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Changes in the fair value of endowment investments					
Investment return:					
Endowment yield (interest and dividends)	$	22,533	51,025	496	74,054
Net appreciation (realized and unrealized) on investments		61,764	98,094	958	160,816
Total investment return		84,297	149,119	1,454	234,870
Endowment payout		(169,002)	(220,553)	(1,880)	(391,435)
Net investment return		(84,705)	(71,434)	(426)	(156,565)
Other changes in endowment investments:					
Gifts and pledge payments received in cash		—	1,676	92,966	94,642
Transfers to create funds functioning as endowment		55,296	—	—	55,296
Other changes		286	(8,694)	16,590	8,182
Total other changes in endowment investments		55,582	(7,018)	109,556	158,120
Net change in endowment investments		(29,123)	(78,452)	109,130	1,555
Endowment investments at:					
Beginning of year		2,009,883	2,934,645	1,515,726	6,460,254
End of year	$	1,980,760	2,856,193	1,624,856	6,461,809
Investments by type of fund					
Donor-restricted “true” endowment	$	(1,457)	2,856,193	1,624,856	4,479,592
Board-designated “funds functioning as endowment"		1,982,217	—	—	1,982,217
Total – as above	$	1,980,760	2,856,193	1,624,856	6,461,809

(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, 2016:

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	$ 16,383	737	—	17,120
Net depreciation (realized and unrealized) on investments	(34,742)	(3,162)	—	(37,904)
Total investment return	(18,359)	(2,425)	—	(20,784)
Endowment payout	(44,622)	(4,229)	—	(48,851)
Net investment return	(62,981)	(6,654)	—	(69,635)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	10	10
Withdrawal to finance capital expenditures	(50,000)	—	—	(50,000)
Other changes	2,939	487	—	3,426
Total other changes in endowment investments	(47,061)	487	10	(46,564)
Net change in endowment investments	(110,042)	(6,167)	10	(116,199)
Endowment investments at:				
Beginning of year	914,479	73,568	8,092	996,139
End of year	$ 804,437	67,401	8,102	879,940
Investments by type of fund				
Donor-restricted “true” endowment	$ —	67,401	8,102	75,503
Board-designated “funds functioning as endowment"	804,437	—	—	804,437
Total – as above	$ 804,437	67,401	8,102	879,940

Included in board-designated “funds functioning as endowment” are $213,898 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, 2015:

		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Changes in the fair value of endowment investments					
Investment return:					
Endowment yield (interest and dividends)	$	40,491	907	—	41,398
Net appreciation (depreciation) (realized and unrealized) on investments		(13,703)	1,879	—	(11,824)
Total investment return		26,788	2,786	—	29,574
Endowment payout		(43,486)	(4,095)	—	(47,581)
Net investment return		(16,698)	(1,309)	—	(18,007)
Other changes in endowment investments:					
Gifts and pledge payments received in cash		—	—	10	10
Transfers to create funds functioning as endowment		32,000	—	—	32,000
Withdrawal to finance capital expenditures		(21,332)	—	—	(21,332)
Other changes		(1,187)	409	—	(778)
Total other changes in endowment investments		9,481	409	10	9,900
Net change in endowment investments		(7,217)	(900)	10	(8,107)
Endowment investments at:					
Beginning of year		921,696	74,468	8,082	1,004,246
End of year	$	914,479	73,568	8,092	996,139
Investments by type of fund					
Donor-restricted “true” endowment	$	—	73,568	8,092	81,660
Board-designated “funds functioning as endowment"		914,479	—	—	914,479
Total – as above	$	914,479	73,568	8,092	996,139

Included in board-designated “funds functioning as endowment” are $221,768 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, 2016:

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Changes in the fair value of endowment investments				
Investment return:				
Endowment yield (interest and dividends)	$ 91	651	—	742
Net depreciation (realized and unrealized) on investments	(327)	(2,324)	—	(2,651)
Total investment return	(236)	(1,673)	—	(1,909)
Endowment payout	(617)	(3,629)	—	(4,246)
Net investment return	(853)	(5,302)	—	(6,155)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	413	413
Other changes	(250)	242	—	(8)
Total other changes in endowment investments	(250)	242	413	405
Net change in endowment investments	(1,103)	(5,060)	413	(5,750)
Endowment investments at:				
Beginning of year	10,288	19,834	51,891	82,013
End of year	$ 9,185	14,774	52,304	76,263
Investments by type of fund				
Donor-restricted “true” endowment	$ —	14,774	52,304	67,078
Board-designated “funds functioning as endowment"	9,185	—	—	9,185
Total – as above	$ 9,185	14,774	52,304	76,263

(In thousands of dollars)

Changes in the fair value of the MBL endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2015:

		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Changes in the fair value of endowment investments					
Investment return:					
Endowment yield (interest and dividends)	$	112	786	—	898
Net appreciation (realized and unrealized) on investments		724	1,546	—	2,270
Total investment return		836	2,332	—	3,168
Endowment payout		(328)	(1,757)	—	(2,085)
Net investment return		508	575	—	1,083
Other changes in endowment investments:					
Gifts and pledge payments received in cash		—	—	1,782	1,782
Other changes		24	87	1	112
Total other changes in endowment investments		24	87	1,783	1,894
Net change in endowment investments		532	662	1,783	2,977
Endowment investments at:					
Beginning of year		9,755	19,172	50,108	79,035
End of year	$	10,287	19,834	51,891	82,012
Investments by type of fund					
Donor-restricted “true” endowment	$	—	19,834	51,891	71,725
Board-designated “funds functioning as endowment"		10,287	—	—	10,287
Total – as above	$	10,287	19,834	51,891	82,012

(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.

(Continued)

(In thousands of dollars)

(e) Endowment Payout

Approximately 97% of the University, Medical Center, and MBL endowment is merged into one investment pool referred to as the Total Return Investment Pool (TRIP). The University utilizes the total return concept in allocating endowment income from TRIP. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board with the objective of a 5% average payout over time, was 5.5% for the fiscal years ended June 30, 2016 and 2015. 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:

	University	Medical Center	MBL	Consolidated	2015 Consolidated
TRIP formula payout	$ 336,157	39,571	4,246	379,974	360,790
Payout from separately invested endowment	2,966	9,280	—	12,246	11,848
Special payouts:					
Alumni Relations and Development	21,055	—	—	21,055	20,245
Strategic initiatives	21,513	—	—	21,513	21,482
Operational support	33,680	—	—	33,680	26,736
Total	$ 415,371	48,851	4,246	468,468	441,101

(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, 2016 and 2015, amounted to $26,452 and $1,457 respectively.

(In thousands of dollars)

(6) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2016 and 2015 are shown as follows:

		2016			2015
		Receivable	Allowance for doubtful accounts	Net receivable	Net receivable
University:					
Patients	$	23,063	(1,092)	21,971	22,342
Students:					
Loans		46,553	(2,500)	44,053	44,178
Tuition and fees		1,997	(1,350)	647	2,157
U.S. government		54,206	—	54,206	47,899
All other		107,792	(5,243)	102,549	95,117
Total University		233,611	(10,185)	223,426	211,693
Medical Center		362,147	(73,746)	288,401	209,736
MBL		5,453	(35)	5,418	5,370
Total	$	601,211	(83,966)	517,245	426,799

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, 2016 and 2015 are shown as follows:

		2016				2015
		University	Medical Center	MBL	Consolidated	Consolidated
Land	$	119,927	36,008	53,182	209,117	210,537
Buildings		3,776,461	1,417,450	102,893	5,296,804	4,872,137
Equipment		519,180	524,676	24,726	1,068,582	1,025,314
Books		360,839	—	842	361,681	342,565
Construction in progress		286,074	197,346	—	483,420	556,596
Subtotal		5,062,481	2,175,480	181,643	7,419,604	7,007,149
Less accumulated depreciation		(1,896,405)	(795,348)	(72,916)	(2,764,669)	(2,603,452)
Subtotal		3,166,076	1,380,132	108,727	4,654,935	4,403,697
Residential properties held for sale		19,646	—	—	19,646	5,568
Total	$	3,185,722	1,380,132	108,727	4,674,581	4,409,265

On October 13, 2016, the University sold the residential properties held for sale for $54,475.

(In thousands of dollars)

(8) Notes and Bonds Payable

Notes and bonds payable at June 30, 2016 and 2015 are shown as follows:

	Fiscal year maturity	Interest rate	2016	2015
University:				
Fixed rate:				
Illinois Finance Authority (IFA)	2039–2053	3.2%–4.8%	$ 1,734,854	1,566,424
Taxable bonds	2031–2046	4.2–5.2	1,012,285	864,270
Unamortized premium and issuance costs			149,510	121,290
Total fixed rate			2,896,649	2,551,984
Variable rate:				
Illinois Educational Facilities Authority (IEFA)	2026–2037	0.1–1.7	299,853	301,211
IFA	2035	0.1	78,941	81,669
Taxable commercial paper ($200,000 available)	2017	0.3	100,000	100,000
Bank lines of credit ($350,000 available)	2017	0.8	253,500	250,500
Total variable rate			732,294	733,380
Total University			3,628,943	3,285,364
Medical Center:				
Fixed rate:				
IFA	2027–2045	3.9–5.5	703,275	714,810
Unamortized premium and issuance costs			3,591	4,323
Total fixed rate			706,866	719,133
Variable rate:				
IEFA	2020	0.9	73,757	75,000
IEFA	2038	0.5	75,671	77,717
Bank line of credit ($40,000 available)	2017	—	—	—
Total variable rate			149,428	152,717
Total Medical Center			856,294	871,850
MBL:				
Fixed rate:				
Massachusetts Development Finance Authority	2015–2018	3.5	28,145	28,895
Unamortized issuance cost			(162)	(170)
Variable rate:				
Bank line of credit ($3,000 available)	2017	—	—	—
Total MBL			27,983	28,725
Total notes and bonds payable			$ 4,513,220	4,185,939

As of June 30, 2016, 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 $180,909, $325,000, and $28,145, respectively. As of June 30, 2015, 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 $183,959, $325,000, and $28,985, respectively.

(In thousands of dollars)

(a) Fiscal 2016 Transactions

During fiscal year 2016, the University issued $415,825 in fixed rate bonds through the IFA and $150,505 in taxable fixed rate bonds. Proceeds were used to 1) advance refund $230,320 of the IFA fixed rate bonds and 2) finance the construction and renovation of certain educational and research facilities.

(b) Defeased Debt

As of June 30, 2016 and 2015, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was $625,975 and $397,905, respectively.

(c) Interest Rate Swaps

At June 30, 2016 and 2015, the fair value of the interest rate swap agreements was an accrued liability of $238,459 and $160,125, respectively as follows:

		2016	2015
University	$	66,767	45,222
Medical Center		165,417	110,447
MBL		6,275	4,456
Total	$	238,459	160,125

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, 2016 and 2015 as follows:

		2016	2015
University	$	(21,545)	(6,083)
Medical Center		(50,775)	(12,396)
MBL		(1,819)	(296)
Total	$	(74,139)	(18,775)

These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness.

The Medical Center maintains two cash flow hedges against interest on variable rate debt which were entered into in August 2011 and have a combined notional amount of $325,000. The interest rate swaps terminate on February 1, 2044.

The Medical Center is required to provide collateral on 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, 2016 and 2015, $36,700 and $5,030 was held as collateral, respectively.

(d) Debt Payments

Principal payments required in each of the five years ending June 30, 2017 through 2021 for the University notes and bonds are approximately $43,678, $59,251, $27,629, $43,225, and $89,698, respectively.

Principal payments required in each of the five years ending June 30, 2017 through 2021 for the Medical Center notes and bonds are approximately $13,255, $13,868, $14,513, $15,208, and $15,940, respectively.

Principal payments required in each of the five years ending June 30, 2017 through 2021 for MBL's notes and bonds are approximately $780, $810, $840, $875, and $910, 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 $913,203, $474,428, and $28,145, respectively, of variable rate notes and bonds maturing through fiscal year 2045. In the event the University, Medical Center, or MBL's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University, Medical Center, and MBL have credit facility agreements totaling $400,000, $400,671, and $28,243, respectively, which support variable rate debt in the event of a failed remarketing.

(g) Subsequent Event

In August 2016, the University increased its available operating lines of credit from $350 million to $500 million.

(In thousands of dollars)

(9) Pledges

Pledges receivable at June 30, 2016 and 2015 are shown as follows:

	2016				2015
	University	Medical Center	MBL	Consolidated	Consolidated
Unconditional promises expected to be collected in:					
Less than one year	$ 167,972	1,661	1,853	171,486	132,835
One year to five years	307,302	2,602	3,166	313,070	266,827
More than five years	251,053	—	—	251,053	223,630
	726,327	4,263	5,019	735,609	623,292
Less unamortized discount and allowance for uncollectible pledges	(122,513)	(113)	(311)	(122,937)	(100,472)
Total	$ 603,814	4,150	4,708	612,672	522,820

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, 2016, the University has received $337,637 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.

(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, 2016 and 2015, was $5,000 per claim and unlimited in the aggregate. Claims in excess of $5,000 are subject to an additional self-insurance retention limited to $12,500 per claim and $22,500 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

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

(In thousands of dollars)

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately $33,091 higher than the amount recorded in the consolidated financial statements at June 30, 2016. The interest rate assumed in determining the present value was 3.5%. The University recorded unrestricted nonoperating actuarial adjustments of ($39,005) and $4,796 during the years ended June 30, 2016 and 2015, 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, 2016 and 2015 is presented as follows:

	2016			
	University	Medical Center	Consolidated	2015 Consolidated
Medical malpractice	$ 238,213	—	238,213	250,444
Workers' compensation	8,432	6,305	14,737	15,914
Others	3,997	—	3,997	4,545
Total	$ 250,642	6,305	256,947	270,903

(11) Pension Plans and Other Postretirement Benefits

(a) Pension Plans

Substantially all personnel of the University participate in either the defined contribution pension plan for academic staff or the defined benefit and contribution pension plans for nonacademic personnel. The majority of Medical Center employees participate in the University's pension plans for nonacademic employees. The University and Medical Center make annual contributions to the defined benefit pension plans at a rate necessary to maintain plan funding on an actuarially recommended basis. 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.

Effective July 1, 2016, the 401(a) defined benefit pension plan was frozen for the majority of University employees participating in the plan and was replaced with an enhanced defined contribution plan. This curtailment resulted in a current year reduction in the defined benefit pension obligation of $45,926 and a curtailment credit of $7,119 in pension expense. Effective November 1, 2016, the remaining University employees participating in the 401(a) plan will be given the option to move to the enhanced defined contribution plan.

As of June 30, 2016, there are no changes in the Medical Center's participation in the 401(a) defined benefit pension plan.

(b) Postretirement Benefits

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.

(In thousands of dollars)

(c) Funded Status

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2016	**2015**	**2016**	**2015**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 954,886	916,791	241,379	223,509
Service cost	41,662	41,070	10,205	10,401
Interest cost	40,869	38,137	10,812	9,715
Benefits paid	(47,455)	(40,076)	(10,267)	(10,054)
Plan amendment	(18,728)	—	(8,945)	—
Curtailment (effect of partial plan freeze)	(45,926)	—	—	—
Actuarial (gain) loss, net	91,829	(1,036)	75,530	7,808
Benefit obligation at end of year	1,017,137	954,886	318,714	241,379
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	695,869	671,793	30,536	21,089
Actual return on plan assets	28,281	(848)	1,830	1,492
Employer contributions	65,000	65,000	14,920	18,009
Benefits paid	(47,454)	(40,076)	(10,267)	(10,054)
Fair value of plan assets at end of year	741,696	695,869	37,019	30,536
Funded status – liability	$ 275,441	259,017	281,695	210,843

The accumulated benefit obligation for the defined benefit pension plans was $935,609 and $821,030 at June 30, 2016 and 2015, respectively.

(In thousands of dollars)

(d) Components of Net Periodic Benefit Cost

		Defined benefit pension plans		Other postretirement benefit plans	
		2016	**2015**	**2016**	**2015**
Service cost	$	41,662	41,070	10,205	10,401
Interest cost		40,869	38,137	10,812	9,715
Expected return on plan assets		(45,724)	(41,177)	(2,295)	(1,859)
Amortization of prior service cost (benefit)		611	1,134	(7,082)	(7,506)
Amortization of actuarial loss		26,367	28,335	6,392	5,240
Net periodic benefit cost	$	63,785	67,499	18,032	15,991
One-time special event - curtailment		(7,119)	—	—	—
Pension cost		56,666	67,499	18,032	15,991
Amounts included in the consolidated statements of activities:					
University	$	24,166	34,999	18,032	15,991
Medical Center		32,500	32,500	—	—
Total	$	56,666	67,499	18,032	15,991

(e) Actuarial Assumptions

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2016	**2015**	**2016**	**2015**
Discount rate	3.6%	4.5%	3.7%	4.6%
Expected return on plan assets	6.5	6.5	6.5	6.5
Rate of compensation increase	3.5	3.5	4.4	4.4
Healthcare cost trend rates:				
Next two fiscal years			6.5%–6.7%	6.7%–7.0%
Next seven fiscal years			5.1%–6.3%	5.3%–6.5%
Thereafter			4.5%–4.9%	4.5%–5.1%

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

(In thousands of dollars)

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects for the fiscal years ended June 30:

		2016	2015
Effect on total service cost and interest cost:			
One-percentage-point increase	$	4,254	3,725
One-percentage-point decrease		(3,219)	(2,868)
Effect on year-end postretirement benefit obligation:			
One-percentage-point increase	$	54,970	36,814
One-percentage-point decrease		(43,120)	(29,278)

(f) Plan Assets

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2016	2015	2016	2015
Domestic public equities	26%	27%	49%	50%
International public equities	20	19	—	—
Fixed income	54	54	51	50
	100%	100%	100%	100%

As of June 30, 2016, 77% 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 23% of plan assets are primarily invested in commingled funds and limited partnerships generally reported at NAV by external fund managers.

The defined benefit plans combined target asset allocation of 48% public equities and 52% 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, 2016.

(g) Contributions

The University expects to make a $5,500 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a $10,000 contribution to the defined benefit pension plans in fiscal year 2017.

(Continued)

(In thousands of dollars)

(h) Estimated Future Benefits Payments

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

Fiscal year		Defined benefit pension plans	Other postretirement benefit plans
2017	$	75,031	8,978
2018		50,388	9,316
2019		51,536	12,013
2020		53,248	12,249
2021		56,378	12,454
2022-2026		296,796	77,560

(i) 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 $8,511 at June 30, 2016.

(j) 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, 2016 and 2015, the benefit obligation for the plan exceeded the plan’s assets thus creating an unfunded liability of $13,140 and $8,281 at June 30, 2016 and 2015, respectively.

(k) Defined Contribution Pension Plan

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to $52,096 in fiscal year 2016 and $49,758 in fiscal year 2015 for the University and $13,100 in fiscal year 2016 and $12,600 in fiscal year 2015 for the Medical Center.

(In thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2016 and 2015 are shown as follows:

		2016	2015
University:			
Academic and research:			
Instruction	$	1,104,427	1,062,788
Research		259,070	258,760
Auxiliary enterprises		162,053	166,430
Library		18,220	20,317
Student services		80,627	76,470
Operation and maintenance of physical plant		131,688	133,863
Depreciation		156,425	140,529
Interest on notes and bonds		90,343	71,365
Total academic and research		2,002,853	1,930,522
Administration:			
Institutional support		187,033	204,920
Operation and maintenance of physical plant		16,915	11,917
Depreciation		32,498	28,843
Interest on notes and bonds		20,884	22,688
Total administration		257,330	268,368
Total University		2,260,183	2,198,890
Medical Center:			
Healthcare service		1,403,939	1,359,252
General and administrative		106,256	99,897
Total Medical Center		1,510,195	1,459,149
MBL:			
Academic and research		37,846	39,978
General and administrative		5,705	5,080
Total MBL		43,551	45,058
Total University	$	3,813,929	3,703,097

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, 2015 and 2014 was $179,385 and $171,549 respectively. Net assets at December 31, 2015 and 2014 were $36,921 and $33,052, 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 $760,697 for ANL and $422,394 for Fermilab in fiscal year 2016, and $731,287 for ANL and $372,774 for Fermilab in fiscal year 2015 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, 2016

(In thousands of dollars)

Assets		**University**	**Medical Center**	**MBL**	**2016 Consolidated**
Cash and cash equivalents	$	48,579	20,335	3,205	72,119
Notes and accounts receivable, net		223,426	288,401	5,418	517,245
Prepaid expenses and other assets		70,140	77,441	1,878	149,459
Pledges receivable, net		603,814	4,150	4,708	612,672
Investments		6,983,346	931,576	84,601	7,999,523
Land, buildings, equipment, and books, net		3,185,722	1,380,132	108,727	4,674,581
Total assets	$	11,115,027	2,702,035	208,537	14,025,599
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$	409,990	502,965	10,048	923,003
Deferred revenue		111,753	—	4,355	116,108
Assets held in custody for others		109,894	—	662	110,556
Self-insurance liability		250,642	6,305	—	256,947
Pension and other postretirement benefit obligations		557,136	13,140	—	570,276
Asset retirement obligation		49,614	7,678	—	57,292
Notes and bonds payable		3,628,943	856,294	27,983	4,513,220
Refundable U.S. government student loan funds		39,414	—	—	39,414
Total liabilities		5,157,386	1,386,382	43,048	6,586,816
Net assets:					
Unrestricted		790,805	1,225,616	88,339	2,104,760
Temporarily restricted		3,195,148	81,925	21,059	3,298,132
Permanently restricted		1,971,688	8,112	56,091	2,035,891
Total net assets		5,957,641	1,315,653	165,489	7,438,783
Total liabilities and net assets	$	11,115,027	2,702,035	208,537	14,025,599

See accompanying independent auditors’ report.

Schedule 2

THE UNIVERSITY OF CHICAGO

Combining Statement of Activities

Year ended June 30, 2016

(In thousands of dollars)

	University	Medical Center	MBL	2016 Consolidated
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	$ 778,382	—	1,701	780,083
Less student aid	(383,447)	—	(862)	(384,309)
Tuition and fees – net	394,935	—	839	395,774
Government grants and contracts	350,128	—	14,812	364,940
Private gifts, grants, and contracts	212,602	222	7,033	219,857
Endowment payout	413,381	48,851	4,246	466,478
Earnings on other investments	2,319	—	—	2,319
Patient service	256,199	1,490,009	—	1,746,208
Auxiliaries	212,947	—	4,473	217,420
Other income	305,605	53,754	1,127	360,486
Net assets released from restrictions	82,067	—	1,649	83,716
Total operating revenue	2,230,183	1,592,836	34,179	3,857,198
Expenses:				
Compensation:				
Academic salaries	541,399	—	8,023	549,422
Staff salaries	573,355	551,367	8,439	1,133,161
Benefits	300,862	147,385	5,191	453,438
Total compensation	1,415,616	698,752	21,653	2,136,021
Other operating expenses:				
Utilities, alterations, and repairs	51,046	24,210	2,476	77,732
Depreciation	188,923	87,123	4,722	280,768
Interest	111,227	33,420	1,020	145,667
Supplies, services, and other	476,760	655,366	12,830	1,144,956
Insurance	16,611	11,324	850	28,785
Total other operating expenses	844,567	811,443	21,898	1,677,908
Total operating expenses	2,260,183	1,510,195	43,551	3,813,929
Excess (deficiency) of operating revenue over expenses	$ (30,000)	82,641	(9,372)	43,269

(Continued)

Schedule 2

THE UNIVERSITY OF CHICAGO

Combining Statement of Activities

Year ended June 30, 2016

(In thousands of dollars)

		University	Medical Center	MBL	2016 Consolidated
Changes in unrestricted net assets:					
Nonoperating:					
Investment losses	$	(211,855)	(63,404)	(850)	(276,109)
Postretirement benefit changes other than curtailment and net periodic benefit cost		(138,423)	(4,429)	(87)	(142,939)
Defined benefit pension plan curtailment (partial)		45,926	—	—	45,926
Change in value of derivative instruments		(21,545)	(50,775)	(1,819)	(74,139)
Loss on debt refinancing		(16,946)	—	—	(16,946)
Other, net		(74,715)	(5,753)	8,857	(71,611)
Change in unrestricted net assets from nonoperating activities		(417,558)	(124,361)	6,101	(535,818)
Decrease in unrestricted net assets		(447,558)	(41,720)	(3,271)	(492,549)
Changes in temporarily restricted net assets:					
Private gifts		150,123	3,677	3,696	157,496
Investment losses		(352,453)	(2,425)	(5,301)	(360,179)
Other, net		1,130	(5,436)	221	(4,085)
Net assets released from restrictions		(82,067)	—	(1,649)	(83,716)
Decrease in temporarily restricted net assets		(283,267)	(4,184)	(3,033)	(290,484)
Changes in permanently restricted net assets:					
Private gifts		162,721	10	3,076	165,807
Endowment payout		1,990	—	—	1,990
Investment losses		(3,342)	—	—	(3,342)
Other, net		15,307	—	3	15,310
Increase in permanently restricted net assets		176,676	10	3,079	179,765
Decrease in net assets		(554,149)	(45,894)	(3,225)	(603,268)
Net assets at beginning of year		6,511,790	1,361,547	168,714	8,042,051
Net assets at end of year	$	5,957,641	1,315,653	165,489	7,438,783

See accompanying independent auditors’ report.

Schedule 3

THE UNIVERSITY OF CHICAGO

Combining Statement of Cash Flows

Year ended June 30, 2016

(In thousands of dollars)

	University	Medical Center	MBL	2016 Consolidated
Cash flows from operating activities:				
Decrease in net assets	$ (554,149)	(45,894)	(3,225)	(603,268)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:				
Depreciation	188,923	87,123	4,722	280,768
Change in value of derivative instruments	21,545	54,970	1,819	78,334
Loss on debt refinancing	16,946	—	—	16,946
Loss on disposal of land, buildings, equipment, and books	4,770	853	—	5,623
Gain on sale of property	(61,053)	—	—	(61,053)
Net loss on investments	213,817	29,500	1,905	245,222
Private gifts and grants restricted for long-term investment	(312,844)	(1,262)	(3,265)	(317,371)
Other nonoperating changes	99,350	78,006	(9,408)	167,948
Postretirement benefit changes other than net periodic benefit cost	92,497	4,429	87	97,013
Changes in operating assets and liabilities:				
Notes and accounts receivable	(12,113)	(78,665)	(3,699)	(94,477)
Prepaid expenses and other assets	38,877	(27,551)	549	11,875
Accounts payable and other liabilities	69,845	(2,906)	(852)	66,087
Self-insurance liability	(12,087)	2,841	—	(9,246)
Total adjustments	348,473	147,338	(8,142)	487,669
Net cash provided by (used in) operating activities	(205,676)	101,444	(11,367)	(115,599)
Cash flows from investing activities:				
Purchase of investments	(1,055,000)	(46,138)	(5,415)	(1,106,553)
Proceeds from sale of investments	1,116,257	100,894	7,317	1,224,468
Acquisition of land, buildings, equipment, and books	(364,566)	(207,299)	(1,782)	(573,647)
Acquisition of physician practice	—	(1,447)	—	(1,447)
Proceeds from sale of property	70,100	—	—	70,100
Loans disbursed	(7,055)	—	—	(7,055)
Principal collected on loans	7,435	—	—	7,435
Net cash provided by (used in) investing activities	(232,829)	(153,990)	120	(386,699)
Cash flows from financing activities:				
Proceeds from issuance of debt instruments	1,980,981	—	—	1,980,981
Principal payments on debt instruments	(1,654,348)	(14,824)	(912)	(1,670,084)
Proceeds from private gifts and grants restricted for long-term investment	163,818	(4,239)	3,265	162,844
Other nonoperating changes	(35,003)	(72,025)	9,349	(97,679)
Net cash provided by (used in) financing activities	455,448	(91,088)	11,702	376,062
Increase (decrease) in cash and cash equivalents	16,943	(143,634)	455	(126,236)
Cash and cash equivalents at:				
Beginning of year	31,636	163,969	2,750	198,355
End of year	$ 48,579	20,335	3,205	72,119
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 110,229	36,099	1,019	147,347

See accompanying independent auditors’ report.