



The University of Chicago

2018–2019

Financial Statements and Supplemental University Information

THE UNIVERSITY OF CHICAGO
Years ended June 30, 2019 and 2018

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THE UNIVERSITY OF CHICAGO

Management's Responsibility for Consolidated Financial Statements

June 30, 2019 and 2018

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

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

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



Ivan Samstein
Vice President and Chief Financial Officer



John R. Kroll
Associate Vice President for Finance



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Independent Auditors' Report

The Board of Trustees
The University of Chicago:

We have audited the accompanying consolidated financial statements of The University of Chicago (the University), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2019 and 2018, 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.



Emphasis of Matters

As discussed in note 1(m) to the consolidated financial statements, in 2019, the University adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. Our opinion is not modified with respect to these matters.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplemental information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
December 4, 2019

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands of dollars)

Assets	2019	2018
Cash and cash equivalents	\$ 254,819	280,197
Notes and accounts receivable, net	632,007	568,434
Prepaid expenses and other assets	304,635	273,108
Pledges receivable, net	1,319,017	600,566
Investments	9,337,282	9,046,311
Land, buildings, equipment, and books, net	4,872,690	4,919,243
Total assets	\$ <u>16,720,450</u>	<u>15,687,859</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,136,693	1,060,214
Deferred revenue	137,972	129,150
Assets held in custody for others	159,111	150,183
Self-insurance liability	255,211	260,998
Pension and other postretirement benefit obligations	272,671	434,400
Asset retirement obligation	53,449	54,457
Notes and bonds payable	4,957,371	4,820,232
Refundable U.S. government student loan funds	30,661	30,470
Total liabilities	<u>7,003,139</u>	<u>6,940,104</u>
Net assets:		
Without donor restrictions	3,000,527	2,892,694
With donor restrictions	<u>6,716,784</u>	<u>5,855,061</u>
Total net assets	<u>9,717,311</u>	<u>8,747,755</u>
Total liabilities and net assets	\$ <u>16,720,450</u>	<u>15,687,859</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Activities
Years ended June 30, 2019 and 2018
(In thousands of dollars)

	2019	2018
Changes in net assets without donor restrictions:		
Operating:		
Revenue:		
Tuition and fees, net of student aid	\$ 513,185	467,798
Government grants and contracts	376,466	348,489
Private gifts, grants, and contracts	313,809	287,859
Endowment payout	474,519	505,143
Patient service	2,413,120	2,286,885
Auxiliaries	169,493	162,594
Other income	481,832	417,255
Net assets released from restrictions	155,114	136,532
Total operating revenue	4,897,538	4,612,555
Expenses:		
Compensation:		
Academic salaries	648,947	619,857
Staff salaries	1,472,881	1,396,727
Benefits	505,818	488,951
Total compensation	2,627,646	2,505,535
Other operating expenses:		
Utilities, alterations, and repairs	95,606	85,632
Depreciation	341,175	331,855
Interest	193,694	177,276
Supplies, services, and other	1,633,217	1,508,423
Total other operating expenses	2,263,692	2,103,186
Total operating expenses	4,891,338	4,608,721
Excess of operating revenue over expenses	\$ 6,200	3,834

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Activities
Years ended June 30, 2019 and 2018
(In thousands of dollars)

	2019	2018
Changes in net assets without donor restrictions :		
Nonoperating:		
Investment gains (losses)	\$ 130	(11,173)
Net periodic benefit cost other than service cost	(15,036)	(30,606)
Retiree health plan change	120,384	—
Other pension and postretirement benefit changes	26,735	83,321
Changes in fair value of derivative instruments	(45,628)	37,207
Other, net	(24,041)	(7,528)
Net assets released from restrictions	39,089	2,173
Nonoperating changes in net assets without donor restrictions	101,633	73,394
Increase in net assets without donor restrictions	107,833	77,228
Changes in net assets with donor restrictions:		
Private gifts	359,287	246,390
Recognition of future income from pledged assets	650,000	—
Endowment payout	826	948
Investment gains	48,667	104,688
Other, net	(2,854)	37,970
Net assets released from restrictions	(194,203)	(138,704)
Increase in net assets with donor restrictions	861,723	251,292
Increase in net assets	969,556	328,520
Net assets at beginning of year	8,747,755	8,419,235
Net assets at end of year	\$ 9,717,311	8,747,755

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Cash Flows
Years ended June 30, 2019 and 2018
(In thousands of dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase in net assets	\$ 969,556	328,520
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	341,175	331,855
Change in value of derivative instruments	45,628	(37,610)
Loss on disposal of land, buildings, equipment, and books	13,144	4,047
Net gain on investments	(425,831)	(520,068)
Private gifts and grants restricted for long-term investment	(1,005,826)	(249,846)
Other nonoperating changes	222,395	115,535
Pension and postretirement benefit changes	(131,605)	(52,700)
Changes in operating assets and liabilities:		
Notes and accounts receivable	(65,638)	85,804
Prepaid expenses and other assets	(31,839)	(52,324)
Accounts payable and other liabilities	22,839	111,390
Self-insurance liability	(5,787)	(26,583)
Total adjustments	<u>(1,021,345)</u>	<u>(290,500)</u>
Net cash provided by (used in) operating activities	<u>(51,789)</u>	<u>38,020</u>
Cash flows from investing activities:		
Purchase of investments	(2,624,996)	(2,626,860)
Proceeds from sale of investments	2,759,857	2,805,349
Acquisition of land, buildings, equipment, and books	(309,950)	(341,208)
Other nonoperating change	—	6,497
Net cash used in investing activities	<u>(175,089)</u>	<u>(156,222)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt instruments	2,202,189	1,931,799
Principal payments on debt instruments	(2,067,698)	(1,805,652)
Proceeds from private gifts and grants restricted for long-term investment	183,841	238,254
Other nonoperating changes	(116,832)	(16,386)
Net cash provided by financing activities	<u>201,500</u>	<u>348,015</u>
Increase (decrease) in cash and cash equivalents	(25,378)	229,813
Cash and cash equivalents at:		
Beginning of year	<u>280,197</u>	<u>50,384</u>
End of year	<u>\$ 254,819</u>	<u>280,197</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 195,431	175,028
Change in construction payable	(4,152)	(146)

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

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

(b) Basis of Presentation

The consolidated financial statements of the University have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts of the University, the Medical Center, and MBL. The organization of the Medical Center and MBL and associated agreements with the University are discussed in notes 2 and 3, respectively.

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

For financial reporting purposes, however, the University follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University: instruction, conduct of sponsored research, and provision of healthcare services. In addition to these exchange transactions, changes in this category of net assets include investment returns on “funds functioning as endowment” funds, actuarial adjustments to self-insurance liabilities, changes in postretirement benefit obligations, and certain types of philanthropic support.

Such philanthropic support includes gifts without restrictions, including those designated by the Board of Trustees (the Board) to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as previously restricted gifts and grants for buildings and equipment that have been placed in service.

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Notes to Consolidated Financial Statements

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(In thousands of dollars)

- **With Donor Restrictions** – Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service; endowment, annuity, and life income gifts; pledges; and investment returns on “true” endowment funds and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

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

Net assets consisted of the following at June 30:

Detail of net assets	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
University:						
Operating	\$ (1,085,834)	45,391	(1,040,443)	(1,095,499)	68,738	(1,026,761)
Unamortized capital gifts for construction	161,271	1,637	162,908	132,901	31,490	164,391
Pledges receivable	—	1,311,408	1,311,408	—	595,274	595,274
Student loan funds	—	27,454	27,454	—	26,528	26,528
Endowment funds	2,099,933	5,061,355	7,161,288	2,056,342	4,869,300	6,925,642
Annuity and life income funds	—	68,735	68,735	—	69,929	69,929
Subtotal	<u>1,175,370</u>	<u>6,515,980</u>	<u>7,691,350</u>	<u>1,093,744</u>	<u>5,661,259</u>	<u>6,755,003</u>
Medical Center:						
Operating	812,811	14,525	827,336	884,192	14,114	898,306
Pledges receivable	—	2,872	2,872	—	2,487	2,487
Endowment funds	923,571	95,694	1,019,265	824,607	94,867	919,474
Subtotal	<u>1,736,382</u>	<u>113,091</u>	<u>1,849,473</u>	<u>1,708,799</u>	<u>111,468</u>	<u>1,820,267</u>
Marine Biological Laboratories						
Operating	80,067	7,248	87,315	80,263	4,938	85,201
Pledges receivable	—	4,737	4,737	—	2,805	2,805
Annuity and life income funds	—	1,121	1,121	—	1,109	1,109
Endowment funds	8,708	74,607	83,315	9,888	73,482	83,370
Subtotal	<u>88,775</u>	<u>87,713</u>	<u>176,488</u>	<u>90,151</u>	<u>82,334</u>	<u>172,485</u>
Total	<u>\$ 3,000,527</u>	<u>6,716,784</u>	<u>9,717,311</u>	<u>2,892,694</u>	<u>5,855,061</u>	<u>8,747,755</u>

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(In thousands of dollars)

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment which amounted to \$3,021,712 and \$2,890,837 as of June 30, 2019 and 2018, respectively. Included in the University's endowment without donor restrictions is a fund designated by the Board to be used to support the University's strategic initiatives which amounted to \$205,750 and \$230,811 as of June 30, 2019 and 2018, respectively.

(c) Operations

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

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

Capital gifts to acquire or construct a long-lived asset are recorded as a donor restricted gift until the related asset is placed in service, at which time the capital gift is released from net assets with donor restrictions to net assets without donor restrictions and subsequently amortized into operations over the estimated useful life of the acquired or constructed asset. This amortization, which amounted to \$10,929 in fiscal year 2019 and \$10,278 in fiscal year 2018, is recorded as a reclassification between the non-operating and operating sections of the change in net assets without donor restrictions in the consolidated statements of activities.

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Notes to Consolidated Financial Statements
June 30, 2019 and 2018
(In thousands of dollars)

(e) Tuition and Fees, Net of Student Aid

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

	2019			2018		
	Tuition and fees	Student aid	Net	Tuition and fees	Student aid	Net
University:						
Precollegiate	\$ 71,980	(6,463)	65,517	67,917	(6,114)	61,803
College	361,217	(150,335)	210,882	323,124	(147,366)	175,758
Graduate and professional schools	521,882	(302,452)	219,430	487,194	(277,440)	209,754
Continuing professional education and other	21,696	(5,233)	16,463	23,674	(3,692)	19,982
	976,775	(464,483)	512,292	901,909	(434,612)	467,297
Marine Biological Laboratory	2,336	(1,443)	893	2,124	(1,623)	501
Total	\$ 979,111	(465,926)	513,185	904,033	(436,235)	467,798

(f) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements, which are generally considered non-exchange transactions, is recognized when qualifying expenditures are incurred and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2019 and 2018 are \$60,764 and \$62,635, respectively, of private grant and contract receipts. Future funding from government and private grant and contract agreements is dependent on fiscal funding clauses and annual appropriations from granting agencies and organizations. Such conditional funding as of June 30, 2019 approximates the annual revenue reported on the consolidated statement of activities.

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands of dollars)

Private gifts, grants, and contracts operating revenue for fiscal years 2019 and 2018 consist of the following:

	2019			2018 Consolidated
	University	Medical Center	MBL	
Private gifts:				
Unrestricted as to use	\$ 21,624	124	1,052	19,807
Restricted gifts whose restrictions were met during the fiscal year and reported as operating revenue	163,662	—	—	145,699
Private grants and contracts	122,984	—	4,363	122,353
Total	\$ 308,270	124	5,415	287,859

(g) Patient Service

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

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

	2019			2018 Consolidated
	University	Medical Center	Consolidated	
Medicare	\$ 76,648	597,322	673,970	605,795
Medicaid	47,634	463,259	510,893	401,396
Managed care	145,437	1,054,753	1,200,190	1,244,423
Patients and other	21,432	6,635	28,067	35,271
Net patient service revenue after provision for doubtful accounts	\$ 291,151	2,121,969	2,413,120	2,286,885

(h) Auxiliaries

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

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(In thousands of dollars)

(i) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2019 and 2018, the amount of interest capitalized amounted to \$1,562 and \$2,444 for the University and \$403 and \$1,075 for the Medical Center, respectively.

(j) Fair Value

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

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

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

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

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

(i) Cash Equivalents

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

(ii) Investments

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year and are classified in Level 1. The University's interests in alternative investment funds such as private debt, global public equity, private equity, real estate, natural resources, and absolute return are generally reported at the net asset value (NAV) reported by the fund managers,

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Notes to Consolidated Financial Statements

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(In thousands of dollars)

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, 2019 and 2018, the University had no plans to sell investments at amounts different from NAV. Funds measured at NAV as a practical expedient to estimate fair value are not classified in the fair value hierarchy.

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

A summary of the inputs used in valuing the University's investments as of June 30, 2019 and 2018 is included in note 5.

(iii) *Pledges Receivable*

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

(iv) *Land, Buildings, Equipment, and Books*

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

(v) *Split-Interest Agreements*

Split-interest agreements with donors consist primarily of charitable remainder trusts for which the University serves as trustee, gift annuity contracts, and pooled life income agreements. Assets associated with split-interest agreements are included in investments. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. These inputs to the fair value estimate are classified in Level 3 of the fair value hierarchy. At June 30, 2019 and 2018, the University had liabilities of \$55,265 and \$56,432 associated with its charitable remainder trust and gift annuity contracts and deferred revenue of \$5,172 and \$5,368 associated with its pooled income agreements, respectively. In subsequent periods, the discount rate is unchanged.

(vi) *Interest Rate Swap Agreements*

In order to reduce exposure to adjustable interest rates on variable rate debt, the University has entered into debt-related interest rate swap agreements. These agreements have the effect of fixing the rate of interest for the variable rate debt. The fair value of these swap agreements is the estimated amount that the University would have to pay or receive to terminate the agreements as

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June 30, 2019 and 2018

(In thousands of dollars)

of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. These inputs to the fair value estimate are classified in Level 2 of the fair value hierarchy.

(vii) *Assets Held in Custody for Others*

Assets held in custody for others consist of resources, primarily investments, held by the University as a custodian for affiliated organizations. Investments held for others are included in the University's investment portfolio. The leveling of these investments is presented in note 5.

(viii) *Self-insurance Liability*

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

(ix) *Pension and Other Postretirement Benefit Obligations*

The pension and other postretirement benefit obligations consider anticipated payout patterns as well as investment returns on available assets prior to payment. The discount rate used to value the pension and other postretirement benefit obligation is a risk-adjusted rate commensurate with the duration of anticipated payments.

(x) *Asset Retirement Obligation*

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

(xi) *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.

(k) Income Taxes

The University, Medical Center, and MBL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, except for unrelated business income, are exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2019 and 2018, and there are no uncertain tax positions considered to be material.

(l) Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires that management make a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the consolidated balance sheet dates,

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

(m) Recent Accounting Pronouncements

- (i) During 2019, the University adopted Accounting Standards Update (ASU) No. 2018-08 – *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions.

In accordance with ASU No. 2018-08, the University has determined that a previously unrecognized pledge with projected cash flow of \$700,000 and a fair value of \$650,000 should be reported as a pledge receivable in the consolidated balance sheet with a corresponding increase in net assets with donor restrictions in the consolidated statement of activities. See note 10.

- (ii) Also during 2019, the University adopted ASU No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, as amended. This guidance provides the framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and not-for-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way the University recognizes revenue; however, the presentation and disclosures of revenue has been enhanced.

(n) Reclassification

Certain 2018 amounts have been reclassified to conform to the 2019 financial statement presentation.

(o) Subsequent Events

In October 2019, the University entered into two interest rate swap agreements. Proceeds from these agreements amounting to \$121,222 are being used for construction and renovation of certain educational facilities.

(2) The University of Chicago Medical Center

(a) Organization

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

(b) Agreements with the University

The relationship between the University and the Medical Center is defined in an Affiliation Agreement and an Operating Agreement along with an associated Lease Agreement. The Affiliation Agreement specifies University and Medical Center responsibilities for the provision of patient care, teaching, and research at the hospitals and clinics. The Operating Agreement provides for the management and

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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 \$342,116 and \$399,888 for the years ended June 30, 2019 and 2018, respectively.

(d) Basis of Presentation

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with GAAP applicable to not-for-profit health care entities. For purposes of presentation of the Medical Center financial position and changes in net assets in the accompanying consolidated financial statements, several reclassifications have been made as follows: (1) investment gains used for operations of \$51,073 in fiscal year 2019 and \$50,713 in fiscal year 2018 have been recorded as operating revenue and (2) transfers to the University of \$71,750 in fiscal year 2019 and \$43,235 in fiscal year 2018 have been recorded as a reduction of other income.

(3) Marine Biological Laboratory (MBL)

(a) Organization

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

(b) Agreement with the University

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

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(4) Financial Assets and Liquidity Resources

As of June 30, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

	2019				2018
	University	Medical Center	MBL	Consolidated	Consolidated
Financial assets:					
Cash and cash equivalents	\$ 78,183	174,122	2,514	254,819	280,197
Notes and accounts receivable, net	152,243	399,130	5,857	557,230	486,249
Pledge payments available for operations	142,458	1,434	897	144,789	70,502
Short-term investments	130,796	—	9,010	139,806	135,709
Board designations:					
Funds functioning as endowment available for operations	205,750	—	—	205,750	230,811
Subsequent year's endowment payout	389,279	59,022	4,373	452,674	439,557
Total financial assets available within one year	1,098,709	633,708	22,651	1,755,068	1,643,025
Liquidity resources:					
Taxable commercial paper	200,000	—	—	200,000	200,000
Bank lines of credit	400,000	50,000	2,775	452,775	463,000
Total financial assets and liquidity resources available within one year	\$ 1,698,709	683,708	25,426	2,407,843	2,306,025

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

To manage liquidity, the University maintains lines of credit with several banks and a taxable commercial paper program that are drawn upon as needed during the year to manage cash flows. As of June 30, 2019, amounts outstanding under these lines of credit facilities amounted to \$286,800.

In addition, as of June 30, 2019 the University, Medical Center, and MBL had an additional \$1,894,183, \$913,071, and \$8,708 in funds functioning as endowment, respectively, which is available for general expenditure with Board approval.

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(5) Investments

Investments at June 30, 2019 and 2018 are comprised of the following:

	<u>2019</u> <u>Consolidated</u>	<u>2018</u> <u>Consolidated</u>
Cash equivalents	\$ 102,050	130,578
Global public equities (primarily international)	3,047,025	2,521,312
Private debt	429,521	382,659
Private equity:		
U.S. venture capital	563,138	454,075
U.S. corporate finance	336,967	291,800
International	590,367	505,231
Real estate	549,384	538,662
Natural resources	562,576	627,543
Absolute return:		
Equity-oriented	538,524	842,923
Global macro/relative value	425,962	493,087
Multistrategy	580,340	625,374
Credit-oriented	464,144	468,179
Protection-oriented	163,168	156,665
Fixed income:		
U.S. treasuries	519,679	521,149
Other fixed income	361,469	357,849
Funds in trust	102,968	129,225
Total	<u>\$ 9,337,282</u>	<u>9,046,311</u>

(a) Overall Investment Objective

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The University diversifies its investments among various asset classes incorporating multiple strategies and external investment managers.

Major investment decisions are authorized by the Board's Investment Committee, which oversees the University's investment program in accordance with established guidelines.

(b) Investment Strategies

Cash equivalent investments include cash equivalents and fixed-income investments with maturities of less than one year, which are valued based on quoted market prices in active markets. The majority of these investments are held in U.S. money market accounts. Global public equity investments consist of separate accounts, exchange traded funds (ETFs), commingled funds with liquidity ranging from daily

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to annually, hedge funds investing primarily in long only public equities, and limited partnerships. ETFs and securities held in separate accounts and daily traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly liquidity are valued based on independently determined NAV. Limited partnership interests in equity-oriented funds are valued based upon NAV provided by external fund managers.

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

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

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

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

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2019 and 2018. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

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(c) Fair Value Hierarchy of Investments

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

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

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Following is the fair value hierarchy of investments as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	2018 Consolidated total
Cash equivalents	\$ 130,578	—	130,578
Global public equities (primarily international)	1,009,063	—	1,009,063
Private equity - U.S. venture capital	5,613	—	5,613
Real estate	154,652	—	154,652
Natural resources	86,888	—	86,888
Absolute return - Global macro/relative value	86,073	27,922	113,995
Fixed income:			
U.S. treasuries	521,149	—	521,149
Other fixed income (primarily credit funds)	357,774	75	357,849
Funds in trust	86,337	30,599	116,936
	<u>\$ 2,438,127</u>	<u>58,596</u>	2,496,723
Investments measured at net asset value			<u>6,549,588</u>
Total investments at fair value as of June 30, 2018			<u>\$ 9,046,311</u>

During fiscal years 2019 and 2018, there were no transfers between investment Levels 1 and 2.

A summary of investment return by entity, net of expenses, is presented below for the years ended June 30, 2019 and 2018:

	<u>2019</u>				2018
	<u>University</u>	<u>Medical Center</u>	<u>MBL</u>	<u>Consolidated</u>	<u>Consolidated</u>
Investment return:					
Interest and dividends	\$ 85,224	14,330	965	100,519	79,048
Net realized and unrealized gains	<u>374,624</u>	<u>54,376</u>	<u>4,382</u>	<u>433,382</u>	<u>528,948</u>
Investment return	<u>\$ 459,848</u>	<u>68,706</u>	<u>5,347</u>	<u>533,901</u>	<u>607,996</u>

Investment return is reported in the accompanying consolidated statements of activities as endowment payout and investment gains.

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The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2019, the University had unfunded commitments of \$1,296,987, which are likely to be called through 2026. Details of these commitments are as follows:

	<u>Unfunded commitments</u>
Private equity	\$ 486,333
Real estate	323,487
Natural resources	179,564
Absolute return	3,750
Private debt	<u>303,853</u>
Total	\$ <u><u>1,296,987</u></u>

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, 2019
Cash	N/A	Daily	None	None
Global public equities:				
Commingled funds	N/A	Daily to annual with notice periods of 2 to 180 days	Lock-up provisions for up to 2 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$0.8 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	\$53.6 million

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	Remaining life	Redemption terms	Redemption restrictions and terms	Redemption restrictions or side pockets at June 30, 2019
Exchange traded funds	N/A	Daily	None	None
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	\$0.3 million
Private equity:				
Drawdown partnerships	1 to 19 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 5 days	None	None
Partnerships	N/A	Semi-annual with notice period of 90 days	Capital is held in side pockets or restricted with no redemptions permitted	\$25.8 million
Direct investments	Indefinite	Redemptions permitted	N/A	\$5.6 million

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Real estate:				
Drawdown partnerships	1 to 18 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 5 days	None	None
Natural resources:				
Drawdown partnerships	1 to 16 years	Redemptions not permitted	N/A	N/A
Separate account	N/A	Daily with notice period of 30 days	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 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$16.5 million
Drawdown partnerships	1 year	Redemptions not permitted	N/A	N/A
Partnerships	N/A	Quarterly to triennial with notice periods of 45 to 90 days	Lock-up provisions for up to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	\$267.7 million
Fixed Income	N/A	Daily	None	None
Funds in Trust	N/A	Daily	None	None

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(6) Endowments

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

The University, Medical Center, and MBL endowment each invest in an investment pool referred to as the Total Return Investment Pool (TRIP). As of June 30, 2019, 98%, 96%, 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, 2019:

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

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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, 2018:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	\$ 18,415	45,989	64,404
Net appreciation (realized and unrealized) on investments	151,508	310,598	462,106
Total investment return	169,923	356,587	526,510
Endowment payout	(196,096)	(259,314)	(455,410)
Investment return, net of payout	(26,173)	97,273	71,100
Other changes in endowment investments:			
Gifts and pledge payments received in cash	—	124,679	124,679
Transfers to create funds functioning as endowment	174,962	—	174,962
Other changes	(1,745)	19,700	17,955
Total other changes in endowment investments	173,217	144,379	317,596
Net change in endowment investments	147,044	241,652	388,696
Endowment investments at:			
Beginning of year	1,909,298	4,627,648	6,536,946
End of year	\$ 2,056,342	4,869,300	6,925,642
Investments by type of fund:			
Donor-restricted "true" endowment:			
Historical gift value	\$ —	2,027,530	2,027,530
Appreciation	—	2,841,770	2,841,770
Board-designated "funds functioning as endowment"	2,056,342		2,056,342
Total – as above	\$ 2,056,342	4,869,300	6,925,642

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(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, 2019:

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

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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, 2018:

	2018		Total
	Without donor restrictions	With donor restrictions	
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	\$ 10,748	719	11,467
Net appreciation (realized and unrealized) on investments	37,964	5,081	43,045
Total investment return	48,712	5,800	54,512
Endowment payout	(41,431)	(4,819)	(46,250)
Investment return, net of payout	7,281	981	8,262
Other changes in endowment investments:			
Gifts and pledge payments received in cash	—	1,234	1,234
Other changes	3,333	—	3,333
Total other changes in endowment investments	3,333	1,234	4,567
Net change in endowment investments	10,614	2,215	12,829
Endowment investments at:			
Beginning of year	813,993	92,652	906,645
End of year	\$ 824,607	94,867	919,474
Investments by type of fund:			
Donor-restricted "true" endowment:			
Historical gift value	\$ —	17,487	17,487
Appreciation	—	77,380	77,380
Board-designated "funds functioning as endowment"	824,607	—	824,607
Total – as above	\$ 824,607	94,867	919,474

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(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, 2019:

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

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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, 2018:

	2018		
	Without donor restrictions	With donor restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	\$ 88	642	730
Net appreciation (realized and unrealized) on investments	668	4,889	5,557
Total investment return	756	5,531	6,287
Endowment payout	(547)	(3,884)	(4,431)
Investment return, net of payout	209	1,647	1,856
Other changes in endowment investments:			
Gifts and pledge payments received in cash	—	1,377	1,377
Other changes	85	(78)	7
Total other changes in endowment investments	85	1,299	1,384
Net change in endowment investments	294	2,946	3,240
Endowment investments at:			
Beginning of year	9,594	70,536	80,130
End of year	\$ 9,888	73,482	83,370
Investments by type of fund:			
Donor-restricted "true" endowment:			
Historical gift value	\$ —	53,890	53,890
Appreciation	—	19,592	19,592
Board-designated "funds functioning as endowment"	9,888	—	9,888
Total – as above	\$ 9,888	73,482	83,370

(d) Interpretation of Relevant Law

The "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), which was enacted in the state of Illinois in 2009, does not preclude the University from spending below the original gift value of donor-restricted "true" endowment funds.

For accounting and reporting purposes, the University, Medical Center, and MBL classify as net assets with donor restrictions the historical value of donor-restricted "true" endowment funds, which includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted "true" endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift.

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(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted “true” endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2019 and 2018, funds with an original gift value of \$126,589 and \$150,718 were “underwater” by \$2,818 and \$3,493, respectively.

(f) Endowment Payout

Approximately 98% of the University, Medical Center, and MBL endowment is merged into one investment pool referred to as the Total Return Investment Pool (TRIP). The University utilizes the total return concept in allocating endowment income from TRIP. In accordance with the University’s return objective, between 4.5% and 5.5% of a 12 quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board with the objective of a 5.0% average payout over time, was 5.5% for the fiscal years ended June 30, 2019 and 2018. 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:

	2019				2018
	University	Medical Center	MBL	Consolidated	Consolidated
TRIP formula payout	\$ 370,817	36,778	4,444	412,039	405,724
Payout from separately invested endowment	5,273	8,436	—	13,709	13,620
Special payouts:					
Alumni Relations and Development	23,684	—	—	23,684	22,773
Strategic initiatives	15,913	—	—	15,913	13,974
Operational support	10,000	—	—	10,000	50,000
Total	<u>\$ 425,687</u>	<u>45,214</u>	<u>4,444</u>	<u>475,345</u>	<u>506,091</u>

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(7) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2019 and 2018 are shown as follows:

	2019			2018 Net receivable
	Receivable	Allowance for doubtful accounts	Net receivable	
University:				
Patients	\$ 20,876	(1,604)	19,272	26,028
Students:				
Loans	32,047	(2,500)	29,547	33,868
Tuition and fees	6,451	(1,875)	4,576	2,080
U.S. government	62,696	—	62,696	56,249
All other	117,029	(7,200)	109,829	97,710
Total University	239,099	(13,179)	225,920	215,935
Medical Center - patients	588,872	(189,742)	399,130	347,870
MBL	6,992	(35)	6,957	4,629
Total	\$ 834,963	(202,956)	632,007	568,434

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

(8) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2019 and 2018 are shown as follows:

	2019				2018 Consolidated
	University	Medical Center	MBL	Consolidated	
Land	\$ 119,271	55,610	52,931	227,812	227,789
Buildings	4,429,022	1,847,108	107,414	6,383,544	6,113,938
Equipment	553,493	717,720	30,739	1,301,952	1,265,344
Books	411,506	—	—	411,506	393,075
Construction in progress	93,781	30,237	270	124,288	233,846
Subtotal	5,607,073	2,650,675	191,354	8,449,102	8,233,992
Less accumulated depreciation	(2,407,472)	(1,082,919)	(86,106)	(3,576,497)	(3,319,479)
Subtotal	3,199,601	1,567,756	105,248	4,872,605	4,914,513
Residential properties held for sale	85	—	—	85	4,730
Total	\$ 3,199,686	1,567,756	105,248	4,872,690	4,919,243

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(9) Notes and Bonds Payable

Notes and bonds payable at June 30, 2019 and 2018 are shown as follows:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2019</u>	<u>2018</u>
University:				
Fixed rate:				
Illinois Finance Authority (IFA)	2039–2053	3.2%–5.0%	\$ 1,761,074	1,774,343
Taxable bonds	2031–2054	3.4–5.2	1,433,595	1,043,315
Unamortized premium net of issuance costs			151,223	156,427
Total fixed rate			<u>3,345,892</u>	<u>2,974,085</u>
Variable rate:				
Illinois Educational Facilities Authority (IEFA)	2026–2037	0.5–1.9	223,072	224,638
IFA	2035	0.7	70,074	73,148
Taxable commercial paper (\$200,000 available)	2018	2.4	55,300	100,000
Bank lines of credit (\$400,000 available)	2019	2.9 %	231,500	393,500
Total variable rate			<u>579,946</u>	<u>791,286</u>
Total University			<u>3,925,838</u>	<u>3,765,371</u>
Medical Center:				
Fixed rate:				
IFA	2027–2045	3.5–5.0	776,730	792,695
Taxable bonds	2047	4.4	30,000	30,000
New market tax credit bonds (NMTC)	2024–2047	1.0–1.8	42,176	42,176
Unamortized premium and issuance costs			21,220	23,069
Total fixed rate			<u>870,126</u>	<u>887,940</u>
Variable rate:				
IFA	2020	3.0	69,801	71,159
IEFA	2038	1.6	66,029	69,353
Bank lines of credit (\$50,000 available)	2019	—	—	—
Total variable rate			<u>135,830</u>	<u>140,512</u>
Total Medical Center			<u>1,005,956</u>	<u>1,028,452</u>
MBL:				
Fixed rate:				
Massachusetts Development Finance Authority	2036	1.9	25,715	26,555
Unamortized issuance cost			(138)	(146)
Variable rate:				
Bank line of credit (\$2,775 available)	2019	—	—	—
Total MBL			<u>25,577</u>	<u>26,409</u>
Total notes and bonds payable			<u>\$ 4,957,371</u>	<u>4,820,232</u>

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As of June 30, 2019, the University, Medical Center, and MBL fixed rate notes and bonds payable include variable rate debt with interest rates that have been fixed through interest rate swap agreements which amounted to \$171,099, \$325,000, and \$25,715, respectively. As of June 30, 2018, 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 \$174,483, \$325,000, and \$26,555, respectively.

(a) Fiscal 2019 Transactions

During fiscal year 2019, the University issued \$400,000 of fixed rate bonds through the IFA. Proceeds were used to 1) refinance \$300,000 of the bank line of credit and 2) pay down \$100,000 of taxable commercial paper.

(b) Interest Rate Swaps

At June 30, 2019 and 2018, the fair value of the interest rate swap agreements was an accrued liability of \$187,972 and \$142,344, respectively, as follows:

	2019	2018
University	\$ 47,708	34,955
Medical center	136,186	104,412
MBL	4,078	2,977
Total	\$ 187,972	142,344

Changes in the fair value of the interest rate swap agreements are included as a nonoperating change in the without donor restrictions section of accompanying consolidated statements of activities.

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

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

The Medical Center is required to provide collateral on 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 \$60,000 and under the Wells Fargo swap when the liability of that swap exceeds \$40,000. Upon further downgrade, the collateral requirements increase. At June 30, 2019, \$13,750 was held as collateral. No collateral was held as of June 30, 2018.

(c) Debt Payments

Principal payments required in each of the five years ending June 30, 2020 through 2024 for the University notes and bonds are \$43,225, \$89,698, \$46,729, \$71,810, and \$64,315, respectively.

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Principal payments required in each of the five years ending June 30, 2020 through 2024 for the Medical Center notes and bonds are \$18,098, \$19,230, \$21,510, \$21,948, and \$21,938, respectively.

Principal payments required in each of the five years ending June 30, 2020 through 2024 for MBL's notes and bonds are \$875, \$910, \$945, \$980, and, \$1,020, respectively.

(d) Collateral

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

(e) Remarketing

Included in the University, Medical Center, and MBL's notes and bonds payable are \$751,045, \$460,830, and \$25,715, respectively, of variable rate notes and bonds maturing through fiscal year 2045. In the event the University, Medical Center, or MBL's remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University, Medical Center, and MBL have credit facility agreements totaling \$300,000, \$391,029 and \$25,955, respectively, which support variable rate debt in the event of a failed remarketing.

(10) Pledges

Pledges receivable at June 30, 2019 and 2018 are shown as follows:

	2019				2018
	University	Medical Center	MBL	Consolidated	Consolidated
Unconditional promises expected to be collected in:					
Less than one year	\$ 257,242	1,434	1,772	260,448	191,015
One year to five years	598,148	1,514	3,630	603,292	290,592
More than five years	<u>1,517,069</u>	<u>—</u>	<u>—</u>	<u>1,517,069</u>	<u>231,282</u>
	2,372,459	2,948	5,402	2,380,809	712,889
Less:					
Valuation allowance	<u>(1,061,051)</u>	<u>(76)</u>	<u>(665)</u>	<u>(1,061,792)</u>	<u>(112,323)</u>
Total	<u>\$ 1,311,408</u>	<u>2,872</u>	<u>4,737</u>	<u>1,319,017</u>	<u>600,566</u>

Based on clarifications in ASU No. 2018-08, the University has determined that a previously unrecognized pledge with projected cash flow of \$700,000 and a fair value in the amount of \$650,000 should be reported as a pledge receivable in the consolidated balance sheet with a corresponding increase in net assets with donor restrictions in the 2019 consolidated statement of activities.

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The University's five largest pledges comprise approximately 80 percent of pledges receivable at June 30, 2019. Included in this amount is an \$875 million pledge receivable from a single donor consisting of the estimated fair value of a non-marketable equity investment in the donor's company aligned with the promise to give, along with the present value of estimated cash flows from the pledged asset.

In addition, at June 30, 2019, the University has received \$135,888 of promises to give, that are conditional upon the raising of matching gifts from other sources or implementation of new academic programs. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(11) 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, 2019 and 2018, was \$5,000 per claim and unlimited in the aggregate. Claims in excess of \$5,000 are subject to an additional self-insurance retention limited to \$12,500 per claim and \$22,500 in annual aggregate. The Medical Center is included under this insurance program and is charged for its portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

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

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately \$29,000 higher than the amount recorded in the consolidated financial statements at June 30, 2019. The interest rate assumed in determining the present value was 3.5%. The University recorded nonoperating actuarial adjustments of (\$2,788) and \$11,178 during the years ended June 30, 2019 and 2018, respectively, which are included in the without donor restrictions section of the accompanying consolidated statements of activities.

In addition, the Medical Center's Community Health and Hospital Division maintains a separate self-insurance program for medical malpractice and workers' compensation. Coverage from commercial insurance carriers is maintained for claims in excess of self-insured retentions at various levels by policy year. Under this program, annual contributions are made to a related trust at an actuarially determined rate.

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The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2019 and 2018 is presented as follows:

	2019			2018
	University	Medical Center	Consolidated	Consolidated
Medical malpractice	\$ 192,018	43,101	235,119	242,275
Workers' compensation	7,356	6,396	13,752	12,958
Others	6,340	—	6,340	5,765
Total	<u>\$ 205,714</u>	<u>49,497</u>	<u>255,211</u>	<u>260,998</u>

(12) Pension Plans and Other Postretirement Benefits

(a) Pension Plans

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

(b) Postretirement Benefits

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

The University's retiree health plan was re-measured in October 2018 to reflect a post-65 plan change to cover medical benefits through a fully insured Medicare Advantage plan. This re-measurement resulted in a current year reduction in the accumulated benefit obligation of \$120,384.

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(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	
	2019	2018	2019	2018
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 921,794	967,817	320,510	342,038
Service cost	1,352	1,473	10,121	13,997
Interest cost	36,541	34,323	10,360	12,929
Benefits paid	(58,379)	(60,064)	(9,099)	(7,934)
Plan amendment	—	—	(120,384)	—
Actuarial (gain) loss, net	44,942	(21,755)	(37,668)	(40,520)
Benefit obligation at end of year	946,250	921,794	173,840	320,510
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	745,768	772,032	62,136	45,995
Actual return on plan assets	63,137	31,304	7,589	3,478
Employer contributions	13,263	2,496	23,004	20,597
Benefits paid	(58,379)	(60,064)	(9,099)	(7,934)
Fair value of plan assets at end of year	763,789	745,768	83,630	62,136
Funded status – liability	\$ 182,461	176,026	90,210	258,374

The accumulated benefit obligation for the defined benefit pension plans was \$941,052 and \$918,305 at June 30, 2019 and 2018, respectively.

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(d) Components of Net Periodic Benefit Cost

	Defined benefit pension plans		Other postretirement benefit plans	
	2019	2018	2019	2018
Operating - Service cost	\$ 1,352	1,473	10,121	14,011
Nonoperating:				
Interest cost	36,541	34,323	10,360	12,994
Expected return on plan assets	(44,545)	(46,392)	(4,685)	(4,048)
Amortization of prior service benefit	(258)	(258)	(19,749)	(10,207)
Amortization of actuarial loss	16,876	20,773	9,108	11,617
Settlements	11,388	11,804	—	—
Total nonoperating	<u>20,002</u>	<u>20,250</u>	<u>(4,966)</u>	<u>10,356</u>
Net periodic benefit cost	<u>\$ 21,354</u>	<u>21,723</u>	<u>5,155</u>	<u>24,367</u>
Amounts included in the consolidated statements of activities:				
University	\$ 11,664	11,209	5,155	24,700
Medical Center	9,690	10,514	—	—
MBL	—	—	—	(333)
Total	<u>\$ 21,354</u>	<u>21,723</u>	<u>5,155</u>	<u>24,367</u>

(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	
	2019	2018	2019	2018
Discount rate	3.6 %	4.2 %	3.7 %	4.3 %
Expected return on plan assets	6.3	6.5	6.3	6.5
Rate of compensation increase	3.5	3.5	3.7	4.3
Healthcare cost trend rates:				
Next two fiscal years			7.3%–7.7%	7.2%–7.5%
Next seven fiscal years			4.6%–6.9%	5.0%–6.9%
Thereafter			4.5%	4.5%–4.7%

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.

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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:

	2019	2018
Effect on total service cost and interest cost:		
One-percentage-point increase	\$ 4,612	5,450
One-percentage-point decrease	(3,398)	(4,149)
Effect on year-end postretirement benefit obligation:		
One-percentage-point increase	\$ 31,771	52,635
One-percentage-point decrease	(24,396)	(41,586)

(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	
	2019	2018	2019	2018
Domestic public equities	23 %	24 %	50 %	51 %
International public equities	27	26	—	—
Fixed income	50	50	50	49
	100 %	100 %	100 %	100 %

As of June 30, 2019, 73% 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 27% of plan assets are primarily invested in commingled funds and limited partnerships generally reported at NAV by external fund managers.

The defined benefit plans combined target asset allocation of 50% public equities and 50% fixed income securities is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments. Plan assets for the other postretirement benefit plans are managed by the University and were held in mutual funds (Level 1) at June 30, 2019.

(g) Contributions

The University expects to make a \$1,200 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a \$8,100 contribution to the defined benefit pension plans in fiscal year 2019.

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(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:

<u>Fiscal year</u>	<u>Defined benefit pension plans</u>	<u>Other postretirement benefit plans</u>
2020	\$ 62,238	4,555
2021	49,753	4,495
2022	50,367	7,437
2023	49,532	8,442
2024	49,772	9,396
2025–2029	271,125	58,541

(i) Curtailed Pension Plan

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2019 and 2018, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of \$6,125 and \$1,938 at June 30, 2019 and 2018, respectively.

(j) Defined Contribution Pension Plan

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to \$76,870 in fiscal year 2019 and \$66,720 in fiscal year 2018 for the University and \$34,200 in fiscal year 2019 and \$32,400 in fiscal year 2018 for the Medical Center.

(13) Functional Classification of Expenses

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

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

	2019			
	Academic and research	Healthcare service	Administrative support	Total
Operating expenses:				
Compensation	\$ 1,441,289	887,053	299,304	2,627,646
Utilities, alterations, and repairs	56,379	32,702	6,525	95,606
Depreciation	182,197	112,468	46,510	341,175
Interest	110,162	38,079	45,453	193,694
Supplies, services, and other	461,658	990,221	181,338	1,633,217
Operating expenses	\$ 2,251,685	2,060,523	579,130	4,891,338
Nonoperating net periodic benefit cost other than service cost				15,036
Total				\$ 4,906,374

Expenses by functional classification for the year ended June 30, 2018 consist of the following:

	2018			
	Academic and research	Healthcare service	Administrative support	Total
Operating expenses:				
Compensation	\$ 1,384,690	847,872	272,973	2,505,535
Utilities, alterations, and repairs	48,398	31,461	5,773	85,632
Depreciation	174,132	112,353	45,370	331,855
Interest	105,133	39,470	32,673	177,276
Supplies, services, and other	412,184	927,102	169,137	1,508,423
Operating expenses	\$ 2,124,537	1,958,258	525,926	4,608,721
Nonoperating net periodic benefit cost other than service cost				30,606
Total				\$ 4,639,327

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(14) 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, 2018 and 2017 was \$195,520 and \$186,800, respectively. Net assets at December 31, 2018 and 2017 were \$47,206 and \$45,341, 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 \$881,982 for ANL and \$461,094 for Fermilab in fiscal year 2019, and \$771,182 for ANL and 401,192 for Fermilab in fiscal year 2018 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.

(15) Contingencies

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

THE UNIVERSITY OF CHICAGO

Consolidating Balance Sheet

June 30, 2019

(In thousands of dollars)

Assets	University	Medical Center	MBL	2019 Consolidated
Cash and cash equivalents	\$ 78,183	174,122	2,514	254,819
Notes and accounts receivable, net	225,920	399,130	6,957	632,007
Prepaid expenses and other assets	117,667	183,765	3,203	304,635
Pledges receivable, net	1,311,408	2,872	4,737	1,319,017
Investments	7,981,665	1,263,220	92,397	9,337,282
Land, buildings, equipment, and books, net	3,199,686	1,567,756	105,248	4,872,690
Total assets	<u>\$ 12,914,529</u>	<u>3,590,865</u>	<u>215,056</u>	<u>16,720,450</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued liabilities	\$ 454,261	673,511	8,921	1,136,693
Deferred revenue	134,891	—	3,081	137,972
Assets held in custody for others	158,122	—	989	159,111
Self-insurance liability	205,714	49,497	—	255,211
Pension and other postretirement benefit obligations	272,671	—	—	272,671
Asset retirement obligation	41,021	12,428	—	53,449
Notes and bonds payable	3,925,838	1,005,956	25,577	4,957,371
Refundable U.S. government student loan funds	30,661	—	—	30,661
Total liabilities	<u>5,223,179</u>	<u>1,741,392</u>	<u>38,568</u>	<u>7,003,139</u>
Net assets:				
Without donor restrictions	1,175,370	1,736,382	88,775	3,000,527
With donor restrictions	6,515,980	113,091	87,713	6,716,784
Total net assets	<u>7,691,350</u>	<u>1,849,473</u>	<u>176,488</u>	<u>9,717,311</u>
Total liabilities and net assets	<u>\$ 12,914,529</u>	<u>3,590,865</u>	<u>215,056</u>	<u>16,720,450</u>

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Consolidating Statement of Activities

Year ended June 30, 2019

(In thousands of dollars)

	<u>University</u>	<u>Medical Center</u>	<u>MBL</u>	<u>2019 Consolidated</u>
Changes in net assets without donor restrictions:				
Operating:				
Revenue:				
Tuition and fees, net of student aid	\$ 512,292	—	893	513,185
Government grants and contracts	364,209	—	12,257	376,466
Private gifts, grants, and contracts	308,270	124	5,415	313,809
Endowment payout	424,861	45,214	4,444	474,519
Patient service	291,151	2,121,969	—	2,413,120
Auxiliaries	164,927	—	4,566	169,493
Other income	288,355	192,446	1,031	481,832
Net assets released from restrictions	144,126	7,072	3,916	155,114
Total operating revenue	<u>2,498,191</u>	<u>2,366,825</u>	<u>32,522</u>	<u>4,897,538</u>
Expenses:				
Compensation:				
Academic salaries	641,001	—	7,946	648,947
Staff salaries	654,184	809,086	9,611	1,472,881
Benefits	315,981	183,312	6,525	505,818
Total compensation	<u>1,611,166</u>	<u>992,398</u>	<u>24,082</u>	<u>2,627,646</u>
Other operating expenses:				
Utilities, alterations, and repairs	56,472	36,630	2,504	95,606
Depreciation	208,333	128,198	4,644	341,175
Interest	148,261	44,456	977	193,694
Supplies, services, and other	509,394	1,109,176	14,647	1,633,217
Total other operating expenses	<u>922,460</u>	<u>1,318,460</u>	<u>22,772</u>	<u>2,263,692</u>
Total operating expenses	<u>2,533,626</u>	<u>2,310,858</u>	<u>46,854</u>	<u>4,891,338</u>
Excess (deficiency) of operating revenue over expenses	<u>\$ (35,435)</u>	<u>55,967</u>	<u>(14,332)</u>	<u>6,200</u>

THE UNIVERSITY OF CHICAGO

Consolidating Statement of Activities

Year ended June 30, 2019

(In thousands of dollars)

	<u>University</u>	<u>Medical Center</u>	<u>MBL</u>	<u>2019 Consolidated</u>
Changes in net assets without donor restrictions:				
Nonoperating:				
Investment gains (losses)	\$ (8,907)	9,019	18	130
Net periodic benefit cost other than service cost	(5,346)	(9,690)	—	(15,036)
Retiree health plan change	120,384	—	—	120,384
Other pension and postretirement benefit changes	31,587	(5,097)	245	26,735
Change in value of derivative instruments	(12,753)	(31,774)	(1,101)	(45,628)
Other, net	(46,993)	9,158	13,794	(24,041)
Net assets released from restrictions	39,089	—	—	39,089
Nonoperating changes in net assets without donor restrictions	<u>117,061</u>	<u>(28,384)</u>	<u>12,956</u>	<u>101,633</u>
Increase (decrease) in net assets without donor restrictions	<u>81,626</u>	<u>27,583</u>	<u>(1,376)</u>	<u>107,833</u>
Changes in net assets with donor restrictions:				
Private gifts	346,443	4,443	8,401	359,287
Recognition of future income from pledged assets	650,000	—	—	650,000
Endowment payout	826	—	—	826
Investment gains	43,068	4,714	885	48,667
Other, net	(2,401)	(462)	9	(2,854)
Net assets released from restrictions	(183,215)	(7,072)	(3,916)	(194,203)
Increase in net assets with donor restrictions	<u>854,721</u>	<u>1,623</u>	<u>5,379</u>	<u>861,723</u>
Increase in net assets	936,347	29,206	4,003	969,556
Net assets at beginning of year	<u>6,755,003</u>	<u>1,820,267</u>	<u>172,485</u>	<u>8,747,755</u>
Net assets at end of year	<u>\$ 7,691,350</u>	<u>1,849,473</u>	<u>176,488</u>	<u>9,717,311</u>

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Consolidating Statement of Cash Flows

Year ended June 30, 2019

(In thousands of dollars)

	University	Medical Center	MBL	2019 Consolidated
Cash flows from operating activities:				
Increase in net assets	\$ 936,347	29,206	4,003	969,556
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Depreciation	208,333	128,198	4,644	341,175
Change in value of derivative instruments	12,753	31,774	1,101	45,628
Loss on disposal of land, buildings, equipment, and books	13,144	-	-	13,144
Net gain on investments	(374,624)	(45,762)	(5,445)	(425,831)
Private gifts and grants restricted for long-term investment	(996,443)	(9,157)	(226)	(1,005,826)
Other nonoperating changes	228,995	7,072	(13,672)	222,395
Pension and postretirement benefit changes	(146,625)	14,787	233	(131,605)
Changes in operating assets and liabilities:				
Notes and accounts receivable	(9,984)	(51,260)	(4,394)	(65,638)
Prepaid expenses and other assets	10,643	(42,211)	(271)	(31,839)
Accounts payable and other liabilities	5,976	17,113	(250)	22,839
Self-insurance liability	(8,667)	2,880	—	(5,787)
Total adjustments	<u>(1,056,499)</u>	<u>53,434</u>	<u>(18,280)</u>	<u>(1,021,345)</u>
Net cash provided by (used in) operating activities	<u>(120,152)</u>	<u>82,640</u>	<u>(14,277)</u>	<u>(51,789)</u>
Cash flows from investing activities:				
Purchase of investments	(2,220,849)	(399,944)	(4,203)	(2,624,996)
Proceeds from sale of investments	2,357,586	391,771	10,500	2,759,857
Acquisition of land, buildings, equipment, and books	(216,646)	(89,037)	(4,267)	(309,950)
Net cash provided by (used in) investing activities	<u>(79,909)</u>	<u>(97,210)</u>	<u>2,030</u>	<u>(175,089)</u>
Cash flows from financing activities:				
Proceeds from issuance of debt instruments	2,202,189	—	—	2,202,189
Principal payments on debt instruments	(2,041,722)	(25,144)	(832)	(2,067,698)
Proceeds from private gifts and grants restricted for long-term investment	181,589	2,085	167	183,841
Other nonoperating changes	(130,582)	—	13,750	(116,832)
Net cash provided by (used in) financing activities	<u>211,474</u>	<u>(23,059)</u>	<u>13,085</u>	<u>201,500</u>
Increase (decrease) in cash and cash equivalents	11,413	(37,629)	838	(25,378)
Cash and cash equivalents at:				
Beginning of year	66,770	211,751	1,676	280,197
End of year	<u>\$ 78,183</u>	<u>174,122</u>	<u>2,514</u>	<u>254,819</u>
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 150,085	44,372	974	195,431
Change in construction payable	(6,408)	1,518	738	(4,152)

See accompanying independent auditors' report.