The University of Chicago

2011–2012

Financial Statements and
Supplemental University Information

THE UNIVERSITY OF CHICAGO

Table of Contents

THE UNIVERSITY OF CHICAGO

Management Responsibility for Consolidated Financial Statements

The management of The University of Chicago (University) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 4 to 46, have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

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

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

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

Nimalan Chinniah
Vice President for Administration
and Chief Financial Officer

John R. Kroll
Associate Vice President for
Finance

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

Independent Auditors' Report

The Board of Trustees
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago (the University) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 20% and 20% and total revenues constituting 44% and 42% of the related consolidated totals in 2012 and 2011, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information included in schedules 1 through 3 is presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic 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 basic consolidated financial statements or to the basic 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 basic consolidated financial statements as a whole.

KPMG LLP

October 10, 2012

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2012 and 2011

(In thousands of dollars)

Assets		**2012**	**2011**
Cash and cash equivalents	$	146,278	202,487
Notes and accounts receivable		376,812	292,484
Prepaid expenses and other assets		100,566	115,001
Pledges receivable		371,561	368,642
Investments		7,440,884	7,480,714
Land, buildings, equipment, and books		3,518,629	3,247,952
Total assets	$	11,954,730	11,707,280
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	650,491	552,947
Deferred revenue		89,521	88,711
Assets held in custody for others		61,535	61,279
Self-insurance liability		264,248	262,726
Pension and other postretirement benefit obligations		568,634	485,729
Asset retirement obligation		64,201	64,522
Notes and bonds payable		3,284,066	3,022,873
Refundable U.S. government student loan funds		38,107	37,804
Total liabilities		5,020,803	4,576,591
Net assets:			
Unrestricted		2,324,884	2,553,311
Temporarily restricted		3,150,524	3,172,866
Permanently restricted		1,458,519	1,404,512
Total net assets		6,933,927	7,130,689
Total liabilities and net assets	$	11,954,730	11,707,280

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2012 and 2011

(In thousands of dollars)

	2012	2011
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	$ 629,288	607,644
Less student aid	(294,394)	(273,917)
Tuition and fees – net	334,894	333,727
Government grants and contracts	386,797	417,882
Private gifts, grants, and contracts	146,475	146,615
Endowment payout	371,632	376,701
Earnings on other investments	2,477	3,243
Patient care	1,429,667	1,314,096
Auxiliaries	206,240	203,480
Other income	209,087	199,897
Net assets released from restrictions	47,399	60,586
Total operating revenue	3,134,668	3,056,227
Expenses:		
Compensation:		
Academic salaries	466,394	443,405
Staff salaries	889,895	849,100
Benefits	388,774	368,679
Total compensation	1,745,063	1,661,184
Other operating expenses:		
Utilities, alterations, and repairs	68,960	72,373
Depreciation	210,742	204,338
Interest	90,698	84,150
Supplies, services, and other	888,842	855,651
Insurance	51,154	51,452
Total other operating expenses	1,310,396	1,267,964
Total operating expenses	3,055,459	2,929,148
Excess of operating revenue over expenses	79,209	127,079

(Continued)

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2012 and 2011

(In thousands of dollars)

		2012	2011
Changes in unrestricted net assets:			
Nonoperating:			
Investment gains (losses)	$	(54,066)	274,954
Postretirement benefit changes other than net periodic benefit cost		(123,322)	9,052
Change in value of derivative instruments		(112,658)	11,046
Loss on debt refinancing		(18,776)	—
Others, net		1,186	88,528
Change in unrestricted net assets from nonoperating activities		(307,636)	383,580
Increase (decrease) in unrestricted net assets		(228,427)	510,659
Changes in temporarily restricted net assets:			
Private gifts		79,212	65,304
Investment gains (losses)		(39,494)	471,287
Others, net		(14,661)	(44,974)
Net assets released from restrictions		(47,399)	(60,586)
Increase (decrease) in temporarily restricted net assets		(22,342)	431,031
Changes in permanently restricted net assets:			
Private gifts		55,584	75,880
Endowment payout		2,517	5,201
Investment gains		400	9,456
Others, net		(4,494)	20,228
Increase in permanently restricted net assets		54,007	110,765
Increase (decrease) in net assets		(196,762)	1,052,455
Net assets at beginning of year		7,130,689	6,078,234
Net assets at end of year	$	6,933,927	7,130,689

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands of dollars)

		2012	2011
Cash flows from operating activities:			
Increase (decrease) in net assets	$	(196,762)	1,052,455
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Depreciation		210,742	204,338
Change in value of derivative instruments		112,658	(11,046)
Loss on debt refinancing		18,776	—
Loss on disposal of land, buildings, equipment, and books		5,701	15,845
Net gain on investments		(200,080)	(1,060,317)
Private gifts and grants restricted for long-term investment		(134,795)	(141,184)
Other nonoperating changes		97,566	40,601
Postretirement benefit changes other than net periodic benefit cost		123,322	(9,053)
Changes in assets and liabilities:			
Notes and accounts receivable		(83,877)	(5,545)
Prepaid expenses and other assets		(13,446)	3,796
Accounts payable and other liabilities		(51,456)	(9,358)
Self-insurance liability		1,522	8,518
Total adjustments		86,633	(963,405)
Net cash provided by (used in) operating activities		(110,129)	89,050
Cash flows from investing activities:			
Purchase of investments		(738,989)	(2,232,550)
Proceeds from sale of investments		1,003,174	2,317,929
Acquisition of land, buildings, equipment, and books		(489,155)	(513,611)
Loans disbursed		(5,563)	(5,908)
Principal collected on loans		5,876	21,707
Net cash used in investing activities		(224,657)	(412,433)
Cash flows from financing activities:			
Proceeds from issuance of debt instruments		1,804,200	1,057,539
Principal payments on debt instruments		(1,562,730)	(750,421)
Proceeds from private gifts and grants restricted for long-term investment		82,566	110,573
Other nonoperating changes		(45,459)	(15,579)
Net cash provided by financing activities		278,577	402,112
Increase (decrease) in cash and cash equivalents		(56,209)	78,729
Cash and cash equivalents at:			
Beginning of year		202,487	123,758
End of year	$	146,278	202,487
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	91,211	96,014

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

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

(b) Basis of Presentation

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

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

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

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

(In thousands of dollars)

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

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

		2012		2011	
Detail of net assets		**Temporarily restricted**	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
University:					
Operating	$	9,934	—	8,604	—
Pledges		312,549	48,579	308,178	46,439
Student loans		—	18,954	—	18,601
Endowment		2,552,126	1,350,616	2,574,275	1,299,857
Annuity and life income		18,313	34,278	17,337	33,503
Net investment in physical properties		162,257	—	170,533	—
Subtotal		3,055,179	1,452,427	3,078,927	1,398,400
Medical center:					
Operating		17,653	—	12,087	—
Pledges		10,413	20	13,995	40
Endowment		67,279	6,072	67,857	6,072
Subtotal		95,345	6,092	93,939	6,112
Total	$	3,150,524	1,458,519	3,172,866	1,404,512

(c) Operations

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

(In thousands of dollars)

(d) Tuition and Fees

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

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2012 and 2011 are $47,138 and $46,169, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2012 and 2011 consist of the following:

		2012			2011
		University	Medical Center	Consolidated	Consolidated
Private gifts:					
Unrestricted as to use	$	16,869	1,463	18,332	29,815
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue		67,165	—	67,165	51,552
Private grants and contracts		60,978	—	60,978	65,248
Total	$	145,012	1,463	146,475	146,615

(f) Patient Care

Patient service revenue is reported net of a provision for doubtful accounts of $13,370 and $12,475 for the University and $45,133 and $45,300 for the Medical Center for the years ended June 30, 2012 and 2011, respectively. This provision reflects the estimated net realizable amounts due from third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments under these agreements and programs are based on specific amounts per case or contracted prices. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

(g) Capitalized Interest

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2012 and 2011, the amount of interest capitalized amounted to $11,930 and $12,883 for the University and $10,015 and $7,729 for the Medical Center, respectively.

(h) Cash Equivalents

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

(i) Investments

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds such as private equity, real estate, natural resources, and absolute return are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2012 and 2011, the University had no plans to sell investments at amounts different from NAV.

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

(In thousands of dollars)

The following table sets forth the gross and net notional values and the University's gain (loss) related to internally managed derivative activities as of June 30, 2012 and 2011 and for the fiscal years then ended:

		2012		
		Gross notional	**Net notional**	**Gain**
Interest rate derivatives	$	—	—	2,623
Currency derivatives		24,974	—	2,122
Equity derivatives		195,241	108,296	2,494
Other derivatives		—	—	60
Total	$	220,215	108,296	7,299

		2011		
		Gross Notional	**Net Notional**	**Gain (Loss)**
Interest rate derivatives	$	—	—	(12)
Currency derivatives		(45,227)	—	(256)
Equity derivatives		(123,903)	(123,903)	273
Total	$	(169,130)	(123,903)	5

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

(j) Land, Buildings, Equipment, and Books

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

(k) Asset Retirement Obligation

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

(Continued)

(l) Split-Interest Agreements

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

At June 30, 2012 and 2011, the University had a liability of $48,366 and $49,992 associated with its charitable remainder trust and gift annuities and deferred revenue of $5,151 and $5,638 associated with its pooled income agreements, respectively.

(m) Income Taxes

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except to the extent the University has unrelated business income, is exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2012 and 2011. The University has no uncertain tax positions, which the University considers to be material.

(n) Use of Estimates

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

(o) Subsequent Events

The University has performed an evaluation of subsequent events through October 10, 2012, which is the date the consolidated financial statements were issued.

(2) The University of Chicago Medical Center

(a) Organization

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

(b) Agreements with the University

The relationship between the University and the Medical Center is defined in an Affiliation Agreement and an Operating Agreement along with an associated Lease Agreement. The Affiliation

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

(c) 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 $252,000 and $204,000 for the years ended June 30, 2012 and 2011, respectively.

(d) Basis of Presentation

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the AICPA *Audit and Accounting Guide for Health Care Organizations*. For purposes of presentation of the Medical Center financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) investment gains used for operations of $37,722 in fiscal year 2012 and $36,454 in fiscal year 2011 have been recorded as unrestricted operating revenue and (2) transfers to the University of $31,892 in fiscal year 2012 and $23,000 in 2011 have been recorded as a reduction of other income.

(In thousands of dollars)

(3) Investments

Investments at June 30, 2012 and 2011 comprise the following:

	2012			2011
	University	Medical Center	Consolidated	Consolidated
Cash equivalents	$ 93,569	15,423	108,992	117,979
Global public equities (primarily international)	1,032,509	235,444	1,267,953	1,385,601
Private debt	237,183	22,848	260,031	290,369
Private equity:				
U.S. venture capital	293,044	33,918	326,962	354,911
U.S. corporate finance	345,195	33,196	378,391	390,420
International	413,208	40,233	453,441	498,282
Real estate	724,554	57,296	781,850	698,677
Natural resources	622,761	59,953	682,714	674,468
Absolute return:				
Equity-oriented	301,218	28,983	330,201	297,264
Global macro/relative value	418,161	40,235	458,396	169,862
Multistrategy	523,005	50,350	573,355	634,316
Credit-oriented	116,548	11,214	127,762	88,339
Protection-oriented	103,672	9,975	113,647	—
Fixed income:				
U.S. treasuries, including TIPS	675,237	149,665	824,902	578,924
Other fixed income (primarily credit funds)	431,226	81,482	512,708	1,048,073
Funds in trust	185,356	54,223	239,579	253,229
Total	$ 6,516,446	924,438	7,440,884	7,480,714

(a) Overall Investment Objective

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The University diversifies its investments among various asset classes incorporating multiple strategies and external investment managers. Major investment decisions are authorized by the Board of Trustee's Investment Committee, which oversees the University's investment program in accordance with established guidelines.

(b) Investment Strategies

Cash equivalent investments include cash equivalents and fixed income investments, with maturities of less than one year, which are valued based on quoted market prices in active markets. The majority of these investments are held in U.S. money market accounts. Global public equity investments consist of separate accounts, commingled funds with liquidity ranging from daily to monthly, and limited partnerships. Securities held in separate accounts and daily-traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly liquidity are valued based on independently determined NAV. Limited partnership interests in equity-oriented funds are valued based upon NAV provided by external fund managers.

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

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

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

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

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2012 and 2011. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

(c) Fair Value of Financial Instruments

Fair value is defined as the price that the University would receive upon selling an investment in an orderly transaction between market participants.

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

- Level 1 – quoted market prices in active markets for identical investments.
- Level 2 – inputs other than quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or inputs other than quoted prices that are observable including model-based valuation techniques.
- Level 3 – valuation techniques that use significant inputs that are unobservable because they trade infrequently or not at all.

(Continued)

(In thousands of dollars)

Following is a summary of the inputs used as of June 30, 2012 in valuing the University's investments carried at fair value:

		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2012 Consolidated total
Cash equivalents	$	108,992	—	—	108,992
Global public equities		615,604	191,763	460,586	1,267,953
Private debt		—	—	260,031	260,031
Private equity:					
U.S. venture capital		—	—	326,962	326,962
U.S. corporate finance		—	—	378,391	378,391
International		—	—	453,441	453,441
Real estate		14,172	—	767,678	781,850
Natural resources		—	—	682,714	682,714
Absolute return:					
Equity-oriented		65,257	62,065	202,879	330,201
Global macro/relative value		65,666	63,099	329,631	458,396
Multistrategy		—	—	573,355	573,355
Credit-oriented		—	—	127,762	127,762
Protection-oriented		—	113,647	—	113,647
Fixed income:					
U.S. treasuries, including TIPS		750,115	74,787	—	824,902
Other fixed income (primarily credit funds)		512,705	—	3	512,708
Funds in trust		237,579	—	2,000	239,579
Total investments at fair value as of June 30, 2012	$	2,370,090	505,361	4,565,433	7,440,884

(In thousands of dollars)

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

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

(In thousands of dollars)

Changes to the reported amounts of investments measured at fair value using unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011 are as follows:

		Equities and fixed income	Alternative investments: Private equity	Private debt	Real assets	Absolute return	2012 Consolidated total
Balance at June 30, 2011	$	679,529	1,243,613	290,369	1,363,609	1,051,904	4,629,024
Total net realized gains or losses		(2,477)	122,720	27,941	104,334	36,055	288,573
Total net unrealized gains or losses		2,624	(219,405)	(35,683)	(90,813)	(11,888)	(355,165)
Purchases		18,277	119,818	37,495	213,595	199,533	588,718
Proceeds from sales, redemptions, and distributions		(69,735)	(107,952)	(60,091)	(138,333)	(237,797)	(613,908)
Transfer in (out) of Level 3		(167,629)	—	—	—	195,820	28,191
Balance at June 30, 2012	$	460,589	1,158,794	260,031	1,452,392	1,233,627	4,565,433

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

During fiscal year 2012, there were no transfers between investment Levels 1 and 2, which are considered material to the consolidated financial statements. Transfers between investment levels primarily take place between Levels 2 and 3 in recognition of changes in observable market data at the end of each reporting period.

(In thousands of dollars)

A summary of the University's investment returns for the years ended June 30, 2012 and 2011 is presented as follows:

		2012			
		University	**Medical Center**	**Consolidated**	**2011 Consolidated**
Investment return:					
Interest and dividends	$	80,807	39,332	120,139	75,154
Net realized and unrealized gains (losses)		171,564	(8,237)	163,327	1,058,388
Investment return	$	252,371	31,095	283,466	1,133,542

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

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2012, the University had unfunded commitments of $757,332 which are likely to be called through 2021. Details of these commitments are as follows:

		Unfunded commitments
Private equity	$	281,644
Real estate		188,774
Natural resources		185,265
Absolute return		3,750
Private debt		97,899
Total	$	757,332

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

	Remaining life	**Redemption terms**	**Redemption restrictions and terms**	**Redemption restrictions in place at June 30, 2012**
Cash	N/A	Daily	None	None
Global public equities:				
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 14 days	None	None
Partnerships	N/A	Quarterly to annually with notice periods of 30 to 180 days	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	None
Private debt	1 to 9 years	Redemptions not permitted	N/A	N/A
Private equity	1 to 19 years	Redemptions not permitted	N/A	N/A
Real estate	1 to 9 years	Redemptions not permitted	N/A	N/A
Natural resources	1 to 9 years	Redemptions not permitted	N/A	N/A
Absolute return:				
Partnerships	N/A	Monthly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted	Approximately $36.7 million of investments are in gated or liquidating funds
Drawdown partnerships	1 to 4 years	Redemptions not permitted	N/A	N/A
Fixed income:				
Separate accounts	N/A	Daily	None	None
Commingled funds	N/A	Daily	None	None
Partnerships	N/A	Quarterly with notice periods of 90 days	Only one-third capital available in any 12-month period	None
Funds in Trust	N/A	Daily	None	None

(In thousands of dollars)

(4) Endowments

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

(a) University Endowment

Changes in the fair value of the University endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2012:

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Investment return:				
Endowment yield (interest and dividends)	$ 23,682	51,875	2,773	78,330
Net appreciation (realized and unrealized) on investments	67,382	100,960	2,232	170,574
Total investment return	91,064	152,835	5,005	248,904
Endowment payout	(133,243)	(195,166)	(4,605)	(333,014)
Net investment return	(42,179)	(42,331)	400	(84,110)

(In thousands of dollars)

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	386	58,690	59,076
Transfers to create funds functioning as endowment	23,004	—	—	23,004
Other changes	971	19,796	(8,331)	12,436
Total other changes in endowment investments	23,975	20,182	50,359	94,516
Net change in endowment investments	(18,204)	(22,149)	50,759	10,406
Endowment investments at:				
Beginning of year	$ 1,816,881	2,574,275	1,299,857	5,691,013
End of year	$ 1,798,677	2,552,126	1,350,616	5,701,419

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets by type of fund:				
Donor-restricted “true” endowment	$ (4,429)	2,552,126	1,350,616	3,898,313
Board-designated “funds functioning as endowment”	1,803,106	—	—	1,803,106
Total – as above	$ 1,798,677	2,552,126	1,350,616	5,701,419

(In thousands of dollars)

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

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Investment return:				
Endowment yield (interest and dividends)	$ 16,429	41,038	985	58,452
Net appreciation (realized and unrealized) on investments	300,850	622,442	13,672	936,964
Total investment return	317,279	663,480	14,657	995,416
Endowment payout	(132,200)	(204,459)	(5,201)	(341,860)
Net investment return	185,079	459,021	9,456	653,556
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	190	87,858	88,048
Transfers to create funds functioning as endowment	40,383	—	—	40,383
Other changes	21,032	(29,032)	12,309	4,309
Total other changes in endowment investments	61,415	(28,842)	100,167	132,740
Net change in endowment investments	246,494	430,179	109,623	786,296
Endowment investments at:				
Beginning of year	1,570,387	2,144,096	1,190,234	4,904,717
End of year	$ 1,816,881	2,574,275	1,299,857	5,691,013

(In thousands of dollars)

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

(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, 2012:

		2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Investment return:					
Endowment yield (interest and dividends)	$	36,192	3,140	—	39,332
Net appreciation (realized and unrealized) on investments		(11,335)	(305)	—	(11,640)
Total investment return		24,857	2,835	—	27,692
Endowment payout		(37,343)	(3,792)	—	(41,135)
Net investment return		(12,486)	(957)	—	(13,443)

(Continued)

(In thousands of dollars)

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Other changes in endowment investments	(1,593)	379	—	(1,214)
Net change in endowment investments	(14,079)	(578)	—	(14,657)
Endowment investments at:				
Beginning of year	810,184	67,857	6,072	884,113
End of year	$ 796,105	67,279	6,072	869,456

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets by type of fund:				
Donor-restricted "true" endowment	$ —	67,279	6,072	73,351
Board-designated "funds functioning as endowment"	796,105	—	—	796,105
Total – as above	$ 796,105	67,279	6,072	869,456

Included in board-designated "funds functioning as endowment" are $296,863 of net assets that are separately invested by the Medical Center.

(In thousands of dollars)

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

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Investment return:				
Endowment yield (interest and dividends)	$ 12,811	648	—	13,459
Net appreciation (realized and unrealized) on investments	112,358	12,356	—	124,714
Total investment return	125,169	13,004	—	138,173
Endowment payout	(36,056)	(3,986)	—	(40,042)
Net investment return	89,113	9,018	—	98,131
Other changes in endowment investments:				
Gifts and pledge payments received in cash	—	—	11	11
Transfers to create funds functioning as endowment	25,000	—	—	25,000
Other changes	5	(5)	—	—
Total other changes in endowment investments	25,005	(5)	11	25,011
Net change in endowment investments	114,118	9,013	11	123,142
Endowment investments at:				
Beginning of year	696,066	58,844	6,061	760,971
End of year	$ 810,184	67,857	6,072	884,113

(In thousands of dollars)

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

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

(c) Interpretation of Relevant Law

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

(d) Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments lagged by one year, is available each year for expenditure in the form of endowment payout. The payout percentage, which is set each year by the Board of Trustees with the objective of a 5.0% average payout over time, was 5.5% for the fiscal years ended June 30, 2012 and 2011. Periodically, the University Board of Trustees will adjust the endowment payout to fund specifically approved strategic initiatives.

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

(In thousands of dollars)

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted "true" endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, which, as of June 30, 2012 and 2011, amounted to $4,429 and $4,803 for the University, respectively.

(5) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2012 and 2011 are shown as follows:

		2012			
		Receivable	**Allowance for doubtful accounts**	**Net receivable**	**2011 Net receivable**
University:					
Patients	$	87,163	(67,991)	19,172	16,803
Students:					
Loans		45,047	(2,500)	42,547	43,151
Tuition and fees		1,763	(1,250)	513	1,631
U.S. government		31,948	—	31,948	25,999
All other		78,617	(4,991)	73,626	66,299
Total university		244,538	(76,732)	167,806	153,883
Medical Center		239,802	(30,796)	209,006	138,601
Total	$	484,340	(107,528)	376,812	292,484

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

(In thousands of dollars)

(6) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2012 and 2011 are shown as follows:

	2012			2011
	University	Medical Center	Consolidated	Consolidated
Land	$ 68,426	36,008	104,434	101,424
Buildings	2,795,458	649,565	3,445,023	3,191,283
Equipment	432,079	479,832	911,911	897,760
Books	287,271	—	287,271	269,614
Construction in progress	218,170	610,211	828,381	706,319
Subtotal	3,801,404	1,775,616	5,577,020	5,166,400
Less accumulated depreciation	(1,349,269)	(709,122)	(2,058,391)	(1,918,448)
Total	$ 2,452,135	1,066,494	3,518,629	3,247,952

(In thousands of dollars)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2012 and 2011 are shown as follows:

	Fiscal year maturity	Interest rate	2012	2011
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	6.0%	$ 975	1,425
Series 2001A	2042	5.3	2,860	2,860
Series 2003A	2014	4.6	6,700	168,820
Illinois Finance Authority (IFA):				
Series 2004A	2035	5.0	15,810	92,620
Series 2004C *	2040	3.8	77,998	78,122
Series 2007	2047	5.0	241,085	242,595
Series 2008 *	2039	3.2	114,502	117,034
Series 2008B	2039	5.6	500,000	500,000
Series 2012A	2052	3.8	369,570	—
Illinois Health Facilities Authority (IHFA) – Series 1985	—	—	—	61,030
Taxable bonds:				
Series 2010	2031	5.3	300,000	300,000
Series 2012B	2043	4.4	190,485	—
Unamortized premium			56,251	10,290
Total fixed rate			1,876,236	1,574,796
Variable rate:				
IEFA:				
Series 1998B	2026	3.4	90,090	90,090
Series 2001B-1	2037	1.1	60,000	60,000
Series 2001B-2	2037	1.9	40,000	40,000
Series 2001B-3	2037	0.2	72,265	72,265
Series 2003B	2034	0.2	42,697	43,877
IFA – Series 2004B	2035	0.2	89,233	91,561
Taxable commercial paper ($200,000 available)	2012	0.2	100,000	100,000
Bank lines of credit ($250,000 available)	2012	0.6	69,000	97,000
Total variable rate			563,285	594,793
Total University			2,439,521	2,169,589
Medical Center:				
Fixed rate:				
IHFA:				
Series 2001	—	—	—	27,570
Series 2001	—	—	—	28,100
Series 2001	—	—	—	24,065
Series 2003	2015	5.0	21,235	27,725
IFA:				
Series 2009A and B	2027	4.9	152,350	153,670
Series 2009C	2037	5.4	85,000	85,000
Series 2009D-1 and 2 *	2044	3.9	70,000	70,000
Series 2009E-1 and 2 *	2044	4.0	70,000	70,000
Series 2010A and B *	2045	4.0	92,500	92,500
Series 2011A and B *	2045	4.0	92,500	92,500
Series 2011C	2042	5.5	90,000	90,000
Series 2012A	2037	4.5	75,155	—
Unamortized premium			12,528	7,088
Total fixed rate			761,268	768,218
Variable rate:				
IEFA pooled financing program	2038	0.2	83,277	85,066
Bank line of credit ($15,000 available)	2012	—	—	—
Total variable rate			83,277	85,066
Total Medical Center			844,545	853,284
Total notes and bonds payable			$ 3,284,066	3,022,873

* Variable rate debt with interest rates that have been fixed through interest rate swap agreements.

(Continued)

(a) Fiscal 2012 Transactions

During fiscal year 2012, the University issued $369,570 in fixed rate revenue bonds through the IFA (Series 2012A) and $190,485 in taxable fixed rate bonds (Series 2012B). Proceeds from the Series 2012A and 2012B bonds were used to 1) advance refund all or a portion of the IHFA Series 1985A, IEFA Series 2003A, and IFA Series 2004A fixed rate bonds and 2) finance the construction and renovation of certain educational facilities.

During fiscal year 2012, the Medical Center issued $75,155 in fixed rate revenue bonds through the IFA (Series 2012A), proceeds from which were used to refund the IHFA Series 2001 fixed rate bonds.

(b) Defeased Debt

As of June 30, 2012 and 2011, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was $295,855.

(c) Interest Rate Swaps

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

At June 30, 2012 and 2011, the fair value of the interest rate swap agreements was an accrued liability of $60,714 and $25,864, for the University and $135,872 and $58,064 for the Medical Center, respectively. Changes in the fair value of the interest rate swap agreements for the fiscal years ended June 30, 2012 and 2011, which amounted to $(34,850) and $7,257 for the University, and $(77,808) and $3,789 for the Medical Center, respectively, are included in other unrestricted nonoperating changes in the accompanying consolidated statements of activities. These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University’s criteria for financial stability and creditworthiness.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2013 through 2017 are approximately $16,158; $44,449; $33,824; $26,011; and $39,218, respectively.

Principal payments required in each of the five years ending June 30, 2013 through 2017 for the Medical Center notes and bonds are approximately $11,290; $10,385; $10,050; $11,535; and $11,975, respectively.

(In thousands of dollars)

(e) Fair Value

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2012 and 2011, based on quoted market prices for the same or similar issues.

(f) Collateral

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

(g) Remarketing

Included in the University and Medical Center’s notes and bonds payable are $563,285 and $408,277, respectively, of variable rate notes and bonds maturing through fiscal year 2045. In the event the University and Medical Center’s remarketing agents are unable to remarket the notes and bonds, they become demand obligations and require immediate payment. To supplement internal liquidity, the University and Medical Center have standby bond purchase agreements totaling $300,000 and $408,277, respectively, which support variable rate debt in the event of a failed remarketing.

In addition, the University has a standby bond purchase agreement of $114,502 in support of its IFA Series 2008 variable rate bonds, which, through an interest rate swap agreement, carry a synthetically fixed interest rate.

(8) Pledges

Pledges receivable at June 30, 2012 and 2011 are shown as follows:

	2012			2011
	University	**Medical Center**	**Consolidated**	**Consolidated**
Unconditional promises expected to be collected in:				
Less than one year	$ 71,342	4,959	76,301	96,606
One year to five years	122,651	6,001	128,652	114,470
More than five years	239,574	—	239,574	227,213
	433,567	10,960	444,527	438,289
Less unamortized discount and allowance for uncollectible pledges	(72,439)	(527)	(72,966)	(69,647)
Total	$ 361,128	10,433	371,561	368,642

(In thousands of dollars)

The University's five largest pledges comprise 96% of pledges expected to be collected in more than five years. Included in this amount is the estimated fair value of a nonmarketable equity investment (based on discounted cash flow and market multiples) specifically aligned with a promise to give, the proceeds of which, when sold, will be used to satisfy the pledge.

In addition, at June 30, 2012, the University has received $293,429 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, completion of construction projects, or future income from pledged investments. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(9) Self-Insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the years ended June 30, 2012 and 2011, was $7,500 per claim and unlimited in the aggregate. Claims in excess of $7,500 are subject to an additional self-insurance retention limited to $12,500 per claim and $12,500 in annual aggregate. 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 $40,000 higher than the amount recorded in the consolidated financial statements at June 30, 2012. The interest rate assumed in determining the present value was 3.75%. The University recorded unrestricted nonoperating actuarial income adjustments of $14,973 and $58,013 during the years ended June 30, 2012 and 2011, respectively, which are included in the accompanying consolidated statements of activities.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2012 and 2011 is presented as follows:

	2012			2011
	University	Medical Center	Consolidated	Consolidated
Medical malpractice	$ 246,700	—	246,700	245,861
Workers' compensation	5,334	8,216	13,550	13,227
Others	3,998	—	3,998	3,638
Total	$ 256,032	8,216	264,248	262,726

(10) Pension Plans and Other Postretirement Benefits

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

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

(In thousands of dollars)

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

		Defined benefit pension plans		Other postretirement benefit plans	
		2012	2011	2012	2011
Change in benefit obligation:					
Benefit obligation at beginning of year	$	651,244	592,464	211,793	196,857
Service cost		29,701	28,114	9,044	8,395
Interest cost		34,803	31,824	11,708	10,696
Benefits paid		(32,241)	(26,168)	(9,210)	(6,864)
Plan amendments		—	—	—	—
Actuarial loss, net		97,290	25,010	50,757	2,709
Benefit obligation at end of year		780,797	651,244	274,092	211,793
Change in fair value of plan assets:					
Fair value of plan assets at beginning of year		385,578	285,807	5,232	9,140
Actual return on plan assets		37,844	40,658	102	1,457
Employer contributions		105,476	85,281	3,877	1,499
Benefits paid		(32,241)	(26,168)	(9,210)	(6,864)
Fair value of plan assets at end of year		496,657	385,578	1	5,232
Funded status – liability	$	(284,140)	(265,666)	(274,091)	(206,561)

The accumulated benefit obligation for the defined benefit pension plans was $679,458 and $560,647 at June 30, 2012 and 2011, respectively.

(In thousands of dollars)

(a) Components of Net Periodic Benefit Cost

		Defined benefit pension plans		Other postretirement benefit plans	
		2012	**2011**	**2012**	**2011**
Service cost	$	29,701	28,114	9,044	8,395
Interest cost		34,803	31,824	11,708	10,696
Expected return on plan assets		(34,500)	(29,126)	(152)	(428)
Amortization of prior service cost (benefit)		1,134	1,134	(2,105)	(2,105)
Amortization of transition obligation		—	—	1,300	1,370
Amortization of actuarial loss		18,462	14,951	5,298	5,478
Net periodic benefit cost	$	49,600	46,897	25,093	23,406
Amounts included in the consolidated statements of activities:					
University	$	(3,138)	4,257	25,093	23,406
Medical Center		52,738	42,640	—	—
Total	$	49,600	46,897	25,093	23,406

(b) Actuarial Assumptions

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

	Defined benefit pension plans		Other postretirement benefit plans	
	2012	**2011**	**2012**	**2011**
Discount rate	4.5%	5.5%	4.1%	5.6%
Expected return on plan assets	7.1	7.1	7.0	6.5
Rate of compensation increase	3.5	3.5	3.5	3.5
Healthcare cost trend rates:				
Next two fiscal years			7.5% – 7.7%	7.7% – 8.0%
Next seven fiscal years			6.0% – 7.2%	6.2% – 7.5%
Thereafter			4.5% – 5.7%	4.5% – 6.0%

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

(Continued)

(In thousands of dollars)

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

		2012	2011
Effect on total service cost and interest cost:			
One-percentage-point increase	$	3,904	3,569
One-percentage-point decrease		(3,017)	(2,752)
Effect on year-end postretirement benefit obligation:			
One-percentage-point increase	$	46,751	31,657
One-percentage-point decrease		(36,832)	(25,404)

(c) Plan Assets

Weighted average asset allocations by asset category are as follows:

	Defined benefit pension plans		Other postretirement benefit plans	
	2012	2011	2012	2011
Domestic public equities	27%	27%	—%	51%
International public equities	14	16	—	—
Fixed income	59	57	100	49
	100%	100%	100%	100%

As of June 30, 2012, 90% of plan assets for the defined benefit pension plans are invested in cash, mutual funds, exchange traded funds, or separately managed accounts comprised of individual securities and are valued based on quoted market prices in active markets for identical investments (Level 1). The remaining assets are invested in commingled funds and limited partnerships generally valued based on quoted market prices in active markets valued based, NAV reported by external fund managers, or independently determined by the University. The remaining 10% of the plan assets are categorized as Level 2 or Level 3.

The defined benefit plans combined target asset allocation of 43% public equities and 57% fixed income securities is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments. Plan assets for the other postretirement benefit plans are managed by the University and were held in cash at June 30, 2012.

(d) Contributions

The University expects to make a $5,000 contribution to its postretirement healthcare plan and, combined with the Medical Center, expects to make a $65,000 contribution to the defined benefit pension plans in fiscal year 2013.

(In thousands of dollars)

(e) Estimated Future Benefits Payments

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

Fiscal year		Defined benefit pension plans	Other postretirement benefit plans
2013	$	31,125	7,079
2014		32,902	8,933
2015		35,008	9,778
2016		37,358	9,866
2017		39,846	10,558
2018 – 2021		235,874	65,568

(f) Prescription Drug Act

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement plan currently meets Medicare's criteria for the tax-free subsidy because the University's plan provides for a higher level of reimbursement than Medicare. The University has recognized the effect of this subsidy in the calculation of its postretirement benefit obligation, the impact of which is to reduce the benefit obligation by $60,640 and $52,280 at June 30, 2012 and 2011, respectively.

(g) Curtailed Pension Plan

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2012 and 2011, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of $10,403 and $13,502 at June 30, 2012 and 2011, respectively.

(h) Defined Contribution Pension Plan

Defined contribution pension plan expenses included in the consolidated statements of activities amounted to $44,477 in fiscal year 2012 and $42,895 in fiscal year 2011 for the University and $11,100 in fiscal year 2012 and $10,200 in fiscal year 2011 for the Medical Center.

(In thousands of dollars)

(11) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2012 and 2011 are shown as follows:

		2012	2011
University:			
Academic and research:			
Instruction	$	822,043	785,622
Research		270,846	296,716
Auxiliary enterprises		134,138	130,992
Library		15,639	17,237
Student services		55,264	47,768
Operation and maintenance of physical plant		112,576	124,799
Depreciation		113,533	109,878
Interest on notes and bonds		57,877	60,253
Total academic and research		1,581,916	1,573,265
Administration:			
Institutional support		125,030	115,753
Informational services		59,340	44,633
Development and alumni relations		59,469	56,340
Operation and maintenance of physical plant		9,261	10,368
Depreciation		29,688	27,257
Interest on notes and bonds		20,032	13,138
Total administration		302,820	267,489
Total University		1,884,736	1,840,754
Medical Center:			
Healthcare service		1,103,904	1,029,727
General and administrative		66,819	58,667
		1,170,723	1,088,394
Total	$	3,055,459	2,929,148

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

(12) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's board of trustees are faculty members or officers of the University. Program-related revenue for the years ended December 31, 2011 and 2010 was $146,492 and $148,970, respectively. Net assets at December 31, 2011 and 2010 were $25,157 and $21,477, 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 $756,019 for ANL and $433,691 for Fermilab in fiscal year 2012, and $745,189 for ANL and $431,610 for Fermilab in fiscal year 2011 are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

(13) Contingencies

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

Schedule 1

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheet

June 30, 2012

(In thousands of dollars)

		University				
Assets		**University Excluding BSD**	**BSD**	**Total**	**Medical Center**	**2012 Consolidated**
Cash and cash equivalents	$	(115,649)	187,579	71,930	74,348	146,278
Notes and accounts receivable		116,389	51,417	167,806	209,006	376,812
Prepaid expenses and other assets		619	48,971	49,590	50,976	100,566
Pledges receivable		361,128	—	361,128	10,433	371,561
Internal loan receivable (payable)		428,300	(428,300)	—	—	—
Investments		5,158,426	1,358,020	6,516,446	924,438	7,440,884
Land, buildings, equipment, and books		1,902,190	549,945	2,452,135	1,066,494	3,518,629
Total assets	$	7,851,403	1,767,632	9,619,035	2,335,695	11,954,730
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	$	286,382	28,877	315,259	335,232	650,491
Deferred revenue		74,900	14,621	89,521	—	89,521
Assets held in custody for others		61,329	206	61,535	—	61,535
Self-insurance liability		9,332	246,700	256,032	8,216	264,248
Pension and other postretirement benefit obligations		558,231	—	558,231	10,403	568,634
Asset retirement obligation		56,256	—	56,256	7,945	64,201
Notes and bonds payable		2,439,521	—	2,439,521	844,545	3,284,066
Refundable U.S. government student loan funds		37,818	289	38,107	—	38,107
Total liabilities		3,523,769	290,693	3,814,462	1,206,341	5,020,803
Net assets:						
Unrestricted		668,196	628,771	1,296,967	1,027,917	2,324,884
Temporarily restricted		2,528,352	526,827	3,055,179	95,345	3,150,524
Permanently restricted		1,131,086	321,341	1,452,427	6,092	1,458,519
Total net assets		4,327,634	1,476,939	5,804,573	1,129,354	6,933,927
Total liabilities and net assets	$	7,851,403	1,767,632	9,619,035	2,335,695	11,954,730

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

See accompanying independent auditors' report.

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2012

(In thousands of dollars)

	University				
	University Excluding BSD	**BSD**	**Total**	**Medical Center**	**2012 Consolidated**
Changes in unrestricted net assets:					
Operating:					
Revenue:					
Tuition and fees – gross	$ 593,087	36,201	629,288	—	629,288
Less student aid	(252,390)	(42,004)	(294,394)	—	(294,394)
Tuition and fees – net	340,697	(5,803)	334,894	—	334,894
Government grants and contracts	158,348	228,449	386,797	—	386,797
Private gifts, grants, and contracts	91,682	53,330	145,012	1,463	146,475
Endowment payout	279,221	51,276	330,497	41,135	371,632
Earnings on other investments	2,477	—	2,477	—	2,477
Patient care	—	207,696	207,696	1,221,971	1,429,667
Auxiliaries	149,553	56,687	206,240	—	206,240
Other income	121,968	55,973	177,941	31,146	209,087
Net assets released from restrictions	32,763	14,636	47,399	—	47,399
Total operating revenue	1,176,709	662,244	1,838,953	1,295,715	3,134,668
Expenses:					
Compensation:					
Academic salaries	232,310	234,084	466,394	—	466,394
Staff salaries	327,838	148,514	476,352	413,543	889,895
Benefits	170,705	98,663	269,368	119,406	388,774
Total compensation	730,853	481,261	1,212,114	532,949	1,745,063
Other operating expenses:					
Utilities, alterations, and repairs	41,187	2,383	43,570	25,390	68,960
Depreciation	105,416	37,804	143,220	67,522	210,742
Interest	77,909	—	77,909	12,789	90,698
Supplies, services, and other	262,468	115,203	377,671	511,171	888,842
Insurance	4,659	25,593	30,252	20,902	51,154
Total other operating expenses	491,639	180,983	672,622	637,774	1,310,396
Total operating expenses	1,222,492	662,244	1,884,736	1,170,723	3,055,459
Excess (deficiency) of operating revenue over expenses	(45,783)	—	(45,783)	124,992	79,209

(Continued)

Schedule 2

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Activities

Year ended June 30, 2012

(In thousands of dollars)

		University				
		University Excluding BSD	**BSD**	**Total**	**Medical Center**	**2012 Consolidated**
Changes in unrestricted net assets:						
Nonoperating:						
Investment (losses)	$	(38,464)	(2,737)	(41,201)	(12,865)	(54,066)
Postretirement benefit changes other than net periodic benefit cost		(120,663)	—	(120,663)	(2,659)	(123,322)
Change in value of derivative instruments		(34,850)	—	(34,850)	(77,808)	(112,658)
Loss on debt refinancing		(18,776)	—	(18,776)	—	(18,776)
Others, net		29,880	39,973	69,853	(68,667)	1,186
Change in unrestricted net assets from nonoperating activities		(182,873)	37,236	(145,637)	(161,999)	(307,636)
Increase (decrease) in unrestricted net assets		(228,656)	37,236	(191,420)	(37,007)	(228,427)
Changes in temporarily restricted net assets:						
Private gifts		74,985	882	75,867	3,345	79,212
Investment gains (losses)		(34,274)	(8,045)	(42,319)	2,825	(39,494)
Others, net		(18,494)	8,597	(9,897)	(4,764)	(14,661)
Net assets released from restrictions		(47,160)	(239)	(47,399)	—	(47,399)
Increase (decrease) in temporary restricted net assets		(24,943)	1,195	(23,748)	1,406	(22,342)
Changes in permanently restricted net assets:						
Private gifts		48,629	6,955	55,584	—	55,584
Endowment payout		2,080	437	2,517	—	2,517
Investment gains		351	49	400	—	400
Others, net		1,456	(5,930)	(4,474)	(20)	(4,494)
Increase in permanently restricted net assets		52,516	1,511	54,027	(20)	54,007
Increase (decrease) in net assets		(201,083)	39,942	(161,141)	(35,621)	(196,762)
Net assets at beginning of year		4,528,717	1,436,997	5,965,714	1,164,975	7,130,689
Net assets at end of year	$	4,327,634	1,476,939	5,804,573	1,129,354	6,933,927

See accompanying independent auditors' report.

Schedule 3

THE UNIVERSITY OF CHICAGO

Consolidated Statement of Cash Flows

Year ended June 30, 2012

(In thousands of dollars)

		University	Medical Center	2012 Consolidated
Cash flows from operating activities:				
Decrease in net assets	$	(161,141)	(35,621)	(196,762)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:				
Depreciation		143,220	67,522	210,742
Change in value of derivative instruments		34,850	77,808	112,658
Loss on debt refinancing		18,776	—	18,776
Loss on disposal of land, buildings, equipment, and books		5,313	388	5,701
Net gain on investments		(171,564)	(28,516)	(200,080)
Private gifts and grants restricted for long-term investment		(131,451)	(3,344)	(134,795)
Other nonoperating changes		4,373	93,193	97,566
Postretirement benefit changes other than net periodic benefit cost		120,663	2,659	123,322
Changes in assets and liabilities:				
Notes and accounts receivable		(14,236)	(69,641)	(83,877)
Prepaid expenses and other assets		(6,077)	(7,369)	(13,446)
Accounts payable and other liabilities		(50,806)	(650)	(51,456)
Self-insurance liability		1,502	20	1,522
Total adjustments		(45,437)	132,070	86,633
Net cash provided by (used in) operating activities		(206,578)	96,449	(110,129)
Cash flows from investing activities:				
Purchase of investments		(590,068)	(148,921)	(738,989)
Proceeds from sale of investments		690,679	312,495	1,003,174
Acquisition of land, buildings, equipment, and books		(248,419)	(240,736)	(489,155)
Loans disbursed		(5,563)	—	(5,563)
Principal collected on loans		5,876	—	5,876
Net cash used in investing activities		(147,495)	(77,162)	(224,657)
Cash flows from financing activities:				
Proceeds from issuance of debt instruments		1,723,255	80,945	1,804,200
Principal payments on debt instruments		(1,472,099)	(90,631)	(1,562,730)
Proceeds from private gifts and grants restricted for long-term investment		75,630	6,936	82,566
Other nonoperating changes		44,937	(90,396)	(45,459)
Net cash provided by (used in) financing activities		371,723	(93,146)	278,577
Increase (decrease) in cash and cash equivalents		17,650	(73,859)	(56,209)
Cash and cash equivalents at:				
Beginning of year		54,280	148,207	202,487
End of year	$	71,930	74,348	146,278
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	80,602	10,609	91,211

See accompanying independent auditors’ report.