

**THE UNIVERSITY OF CHICAGO**

Consolidated Financial Statements and  
Supplemental University Information

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

## **THE UNIVERSITY OF CHICAGO**

### **Management Responsibility for 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 financial statements, presented on pages 3 to 29, have been prepared in conformity with 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, 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 Hospitals (Hospitals) and their opinion, insofar as it relates to the amounts included for the Hospitals, is based solely on the report of PricewaterhouseCoopers, the independent auditors for the Hospitals. The University believes that all representations made to KPMG during their audit were valid and appropriate. KPMG's audit opinion is presented on page 2.

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

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

Donald J. Reaves  
Vice President for Administration  
and Chief Financial Officer

William J. Hogan, Jr.  
Comptroller



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

## **Independent Auditors' Report**

The Board of Trustees  
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago as of June 30, 2004 and 2003, 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 Hospitals (the Hospitals), which statements reflect total assets constituting 16% and 17% and total operating revenue constituting 38% of the related consolidated totals in 2004 and 2003. Our opinion, insofar as it relates to the amounts included for the Hospitals, is based solely on the report of 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**KPMG LLP**

September 15, 2004

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2004 and 2003

(In thousands of dollars)

	2004			2003
	University	Hospitals	Consolidated	Consolidated
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	\$ 393,186	—	393,186	364,765
Less:				
Undergraduate student aid	(43,223)	—	(43,223)	(37,777)
Graduate student aid	(122,940)	—	(122,940)	(114,881)
Tuition and fees – net	227,023	—	227,023	212,107
Government grants and contracts	286,350	—	286,350	254,338
Private gifts, grants, and contracts	83,948	374	84,322	89,014
Endowment payout	179,379	7,322	186,701	175,242
Earnings on other investments	4,406	8,895	13,301	21,642
Patient care	147,211	678,704	825,915	784,367
Auxiliaries	160,387	—	160,387	143,157
Other income	118,226	30,995	149,221	130,183
Total operating revenue	1,206,930	726,290	1,933,220	1,810,050
Expenses:				
Compensation:				
Academic salaries	311,348	—	311,348	299,860
Staff salaries	275,118	297,268	572,386	536,539
Benefits	130,086	56,923	187,009	174,368
Total compensation	716,552	354,191	1,070,743	1,010,767
Other operating expenses:				
Utilities, alterations, and repairs	32,777	19,946	52,723	47,126
Depreciation	68,635	40,830	109,465	98,461
Interest	22,739	11,005	33,744	37,434
Supplies, services, and other	314,109	227,335	541,444	479,076
Insurance	24,745	17,212	41,957	26,053
Total other operating expenses	463,005	316,328	779,333	688,150
Total operating expenses	1,179,557	670,519	1,850,076	1,698,917
Excess of operating revenue over expenses	27,373	55,771	83,144	111,133
Loss from operation and sale of discontinued units	—	916	916	155
Excess of operating revenue over expenses and loss from discontinued units	27,373	54,855	82,228	110,978

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

Years ended June 30, 2004 and 2003

(In thousands of dollars)

	2004			2003
	University	Hospitals	Consolidated	Consolidated
Changes in unrestricted net assets:				
Nonoperating:				
Investment gains (losses)	\$ 312,098	30,581	342,679	(91,411)
Minimum pension liability adjustment	62,499	3,175	65,674	(71,658)
Other, net	(9,731)	(14,625)	(24,356)	(35,671)
Change in unrestricted net assets from nonoperating activities	364,866	19,131	383,997	(198,740)
Increase (decrease) in unrestricted net assets	392,239	73,986	466,225	(87,762)
Changes in temporarily restricted net assets:				
Private gifts	43,266	2,736	46,002	76,345
Endowment payout	225	—	225	192
Investment gains	1,925	—	1,925	234
Other, net	(45,124)	(1,391)	(46,515)	(46,073)
Increase in temporarily restricted net assets	292	1,345	1,637	30,698
Changes in permanently restricted net assets:				
Private gifts	45,357	360	45,717	29,583
Endowment payout	2,244	—	2,244	2,019
Investment gains (losses)	3,131	—	3,131	(1,041)
Other, net	10,328	—	10,328	3,985
Increase in permanently restricted net assets	61,060	360	61,420	34,546
Increase (decrease) in net assets	453,591	75,691	529,282	(22,518)
Net assets at beginning of year	3,735,249	407,181	4,142,430	4,164,948
Net assets at end of year	\$ 4,188,840	482,872	4,671,712	4,142,430

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**

Consolidated Balance Sheets

June 30, 2004 and 2003

(In thousands of dollars)

Assets	2004			2003
	University	Hospitals	Consolidated	Consolidated
Cash and cash equivalents	\$ —	51,483	51,483	60,781
Notes and accounts receivable	209,087	102,404	311,491	325,801
Collateral held for securities loaned	288,662	—	288,662	283,435
Inventories	8,670	3,630	12,300	12,821
Prepaid expenses and other assets	55,923	48,738	104,661	69,538
Pledges receivable	132,994	26,370	159,364	164,772
Investments	4,015,534	426,763	4,442,297	3,889,268
Land, buildings, equipment, and books	1,113,460	412,417	1,525,877	1,303,870
Total assets	\$ 5,824,330	1,071,805	6,896,135	6,110,286
<b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 205,778	226,166	431,944	390,797
Deferred revenue	60,320	—	60,320	68,681
Payable under securities loan agreements	288,662	—	288,662	283,435
Assets held in custody for others	24,302	—	24,302	21,216
Self-insurance liability	147,321	6,746	154,067	138,412
Notes and bonds payable	869,955	356,021	1,225,976	1,026,345
Refundable U.S. Government student loan funds	39,152	—	39,152	38,970
Total liabilities	1,635,490	588,933	2,224,423	1,967,856
Net assets:				
Unrestricted	3,096,745	428,270	3,525,015	3,058,790
Temporarily restricted	286,404	48,938	335,342	333,705
Permanently restricted	805,691	5,664	811,355	749,935
Total net assets	4,188,840	482,872	4,671,712	4,142,430
Total liabilities and net assets	\$ 5,824,330	1,071,805	6,896,135	6,110,286

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2004 and 2003  
(In thousands of dollars)

	<b>2004</b>			<b>2003</b>
	<u>University</u>	<u>Hospitals</u>	<u>Consolidated</u>	<u>Consolidated</u>
Cash flows from operating activities:				
Increase (decrease) in net assets from continuing operations	\$ 453,591	75,691	529,282	(22,518)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation	68,635	40,830	109,465	98,461
Net gain on investments	(433,017)	(25,915)	(458,932)	(29,884)
Private gifts and grants restricted for long-term investment	(88,623)	(3,096)	(91,719)	(105,928)
Other nonoperating changes	42,058	11,707	53,765	74,961
Pension (income) expense	11,499	—	11,499	(573)
Minimum pension liability adjustment	(62,499)	(3,175)	(65,674)	71,658
Changes in assets and liabilities:				
Notes and accounts receivable	(4,792)	11,388	6,596	18,438
Prepaid expenses and other assets	24,334	(2,331)	22,003	(4,642)
Accounts payable and other liabilities	47,237	(3,167)	44,070	(5,737)
Self-insurance liability	14,997	658	15,655	29,721
Total adjustments	(380,171)	26,899	(353,272)	146,475
Net cash provided by operating activities	73,420	102,590	176,010	123,957
Cash flows from investing activities:				
Purchase of investments	(818,680)	(243,975)	(1,062,655)	(436,915)
Proceeds from sale of investments	714,109	250,848	964,957	583,135
Acquisition of land, buildings, equipment, and books	(256,234)	(92,160)	(348,394)	(248,460)
Disposal of land, buildings, equipment, and books	16,541	—	16,541	5,998
Loans disbursed	(63,112)	—	(63,112)	(57,432)
Principal collected on loans	70,826	—	70,826	54,998
Proceeds from sale of discontinued operations	—	1,000	1,000	—
Net cash used in investing activities	(336,550)	(84,287)	(420,837)	(98,676)
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	310,880	70,256	381,136	51,367
Principal payments on notes and bonds payable	(108,589)	(77,087)	(185,676)	(76,028)
Proceeds from private gifts and grants restricted for long-term investment	85,756	11,371	97,127	104,516
Other nonoperating changes	(42,058)	(15,000)	(57,058)	(75,178)
Net cash provided by (used in) financing activities	245,989	(10,460)	235,529	4,677
Increase (decrease) in cash and cash equivalents	(17,141)	7,843	(9,298)	29,958
Cash and cash equivalents at:				
Beginning of year	17,141	43,640	60,781	30,823
End of year	\$ —	51,483	51,483	60,781
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 27,945	13,000	40,945	41,329

See accompanying notes to consolidated financial statements.

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

### (1) Summary of Significant Accounting Policies

#### *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 Hospitals (the Hospitals) and other health care facilities located in the area.

Significant accounting policies followed by the University and the Hospitals are set forth below. Accounting policies specific to the Hospitals are discussed in note 2.

#### *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 Hospitals. The organization of the Hospitals and agreements between the University and the Hospitals 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 Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). SFAS No. 117 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 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 health care services. In addition to these exchange transactions, changes in this category of net assets include realized and unrealized gains and losses on endowment funds 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.
- 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



# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

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, 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 reclassifications between the net asset classes and included in other and amounted to \$37,677 in fiscal 2004 and \$23,645 in fiscal 2003.

- 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.

Net assets consisted of the following at June 30:

Detail of Net Assets	2004			Total	2003 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
University:					
Operating	\$ 171,306	18,564	—	189,870	152,823
Pledges	—	85,530	47,464	132,994	130,127
Student loans	—	—	12,636	12,636	11,448
Endowment	2,724,838	19,305	718,331	3,462,474	3,079,097
Annuity and life income	—	11,825	27,260	39,085	31,545
Net investment in physical properties	200,601	151,180	—	351,781	330,209
Subtotal	<u>3,096,745</u>	<u>286,404</u>	<u>805,691</u>	<u>4,188,840</u>	<u>3,735,249</u>
Hospitals:					
Operating	223,244	23,005	—	246,249	180,012
Pledges	—	25,933	437	26,370	34,645
Endowment	132,813	—	5,227	138,040	125,060
Net investment in physical properties	72,213	—	—	72,213	67,464
Subtotal	<u>428,270</u>	<u>48,938</u>	<u>5,664</u>	<u>482,872</u>	<u>407,181</u>
Total	<u>\$ 3,525,015</u>	<u>335,342</u>	<u>811,355</u>	<u>4,671,712</u>	<u>4,142,430</u>

### *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 and other infrequent gains and losses.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

As discussed in note 2, the Hospitals provides certain operating support to the University's Biological Sciences Division. Such support is included in other operating income by the University to the extent expended for noncapital purposes during the period, and amounted to \$15,363 in fiscal 2004 and \$14,829 in fiscal 2003.

***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, 2004 and 2003 are \$36,698 and \$39,405, respectively, of private grant and contract receipts which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2004 and 2003 consists of the following:

	<b>2004</b>			<b>2003</b>
	<u>University</u>	<u>Hospitals</u>	<u>Total</u>	<u>Total</u>
Private gifts:				
Unrestricted as to use	\$ 15,401	374	15,775	16,023
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	21,538	—	21,538	21,277
Private grants and contracts	<u>47,009</u>	<u>—</u>	<u>47,009</u>	<u>51,714</u>
Total	<u>\$ 83,948</u>	<u>374</u>	<u>84,322</u>	<u>89,014</u>

***Endowment Payout***

The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, 5% of a twelve quarter moving average of the market value of endowment investments is available each year for expenditure in the form of endowment payout. Change from the prior fiscal year's endowment payout is limited to a reduction of 4% with no limit on increases.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

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(In thousands of dollars)

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.

Endowment payout for fiscal years 2004 and 2003 consists of the following:

	2004			2003
	University	Hospitals	Total	Total
Interest, dividends, and rents	\$ 65,985	2,566	68,551	66,081
Realized investment gains used to support the endowment payout formula	115,863	4,756	120,619	111,372
Total	\$ 181,848	7,322	189,170	177,453

Unrestricted operating endowment payout revenue for fiscal years 2004 and 2003 consists of the following:

	2004			2003
	University	Hospitals	Total	Total
Unrestricted payout	\$ 49,910	—	49,910	48,339
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	129,469	7,322	136,791	126,903
Total	\$ 179,379	7,322	186,701	175,242

***Patient Care***

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

***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.

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

### *Inventories*

Inventories are comprised principally of goods and supplies held by the University Press and Hospitals and are valued at the lower of cost or net realizable value.

### *Investments*

Investments are recorded in the consolidated financial statements at fair value. The value of investments in index funds, open-end and closed-end funds, and publicly-traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable.

Fair values for certain private equity, real estate, and natural resource investments held through limited partnerships or commingled funds are estimated by the respective investment managers if market values are not readily ascertainable. These valuations necessarily involve estimates, appraisals, assumptions, and methods which are reviewed by the University's Investment Office.

The University does not engage directly in unhedged speculative investments, however, the board of trustees has authorized derivative investments to gain market exposure within asset class ranges, hedge nondollar investments and currencies, and provide for defensive portfolio strategies. To minimize the risk of loss, hedge fund investments are diversified by strategy, external manager, and number of positions. In addition, the activities of all hedge fund managers are regularly reviewed by their independent outside auditors and the University Investment Office. The risk of any derivative exposure is limited to the amount invested with each manager. Derivative investments are recorded at fair value and valuation gains and losses are included in the consolidated statements of activities.

### *Land, Building, 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.

### *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.

### *Use of Estimates*

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

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

### *Reclassifications*

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

## (2) The University of Chicago Hospitals

### *Organization*

The University of Chicago Hospitals was incorporated and assumed the operations of the University hospitals and clinics on October 1, 1986. The University of Chicago Hospitals also includes QV, Inc., an affiliated not-for-profit health care corporation operating clinics in the Chicago area, and until fiscal 2004, a home health care agency.

### *Agreements with the University*

The relationship between the University and the Hospitals is defined in an Affiliation Agreement and an Operating Agreement, both dated October 1, 1986. The Operating Agreement was amended and a Lease Agreement between the University and the Hospitals was entered into as of June 30, 1987. Additional lease agreements have been entered into from time to time. The Affiliation Agreement has an initial term of 40 years which automatically renews for additional successive 10-year terms following expiration of the initial term, unless either party provides the other with at least two years' prior notice of its election not to renew. The Affiliation Agreement specifies University and Hospitals' 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 Hospitals of the University's hospital and clinic facilities. The Lease Agreement provides a leasehold interest in the University health care facilities and certain land and parking structures.

### *Derivative Instruments*

The Hospitals has entered into an interest rate swap agreement to manage its exposure to interest rate movements by effectively converting a portion of its debt to fixed from variable interest rate. This agreement involves the exchange of variable rate payments for fixed rate payments on a stated notional amount and accordingly has utilized hedge accounting. The change in the fair value of the interest rate swap is excluded from excess of revenues over expenses and reported as a nonoperating change in unrestricted net assets.

### *Basis of Presentation*

The Hospitals maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the American Institute of Certified Public Accountants *Audit and Accounting Guide Health Care Organizations*. For purposes of presentation of the Hospitals' financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for uncollectible Hospitals' patient accounts receivable of \$43,869 in fiscal year 2004 and \$61,372 in fiscal year 2003 has been reclassified as a reduction of patient care revenue and (2) realized investment gains (losses) of \$1,550 in fiscal year 2004 and (\$16,383) in fiscal year 2003 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

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(In thousands of dollars)

The Hospitals have made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. During fiscal 2004 and fiscal 2003, the Hospitals transferred \$15,000 annually to the University in support of these programs.

**(3) Investments**

Fair values of investments at June 30, 2004 and 2003 are shown below:

	<b>2004</b>				<b>2003 Total</b>
	<b>University and Hospitals endowment</b>	<b>Other investments</b>		<b>Total</b>	
		<b>University</b>	<b>Hospitals</b>		
Cash equivalents	\$ 124,820	2,637	—	127,457	10,195
Domestic public equities	855,249	46,886	154,552	1,056,687	872,546
International public equities	656,479	16,629	621	673,729	557,312
Private equity	597,188	3,416	18,916	619,520	526,509
Real assets	295,904	7,512	6,905	310,321	320,366
Absolute return	587,983	3,364	—	591,347	485,689
High yield bonds	170,142	6,640	—	176,782	243,378
Fixed income	290,515	181,383	81,831	553,729	603,175
Funds held in trust (primarily cash equivalents and bonds)	22,234	284,593	25,898	332,725	270,098
Total	\$ 3,600,514	553,060	288,723	4,442,297	3,889,268

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Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2004 and 2003:

	<b>2004</b>			<b>2003</b>
	<b>University</b>	<b>Hospitals</b>	<b>Consolidated</b>	<b>Consolidated</b>
Investment return:				
Endowment yield (interest, dividends, and rents)	\$ 65,985	2,566	68,551	66,081
Realized gains on investments	107,443	4,464	111,907	21,386
Unrealized gains on investments	324,140	13,168	337,308	3,289
Total investment gain	497,568	20,198	517,766	90,756
Endowment payout	(181,848)	(7,322)	(189,170)	(177,453)
Net investment gain (loss)	315,720	12,876	328,596	(86,697)
Other changes in endowment investments:				
Gifts and pledge payments received in cash	47,563	104	47,667	34,074
Transfers to create funds functioning as endowment	18,025	—	18,025	14,582
Other changes	2,069	—	2,069	2,250
Total other changes in endowment investments	67,657	104	67,761	50,906
Net change in endowment investments	383,377	12,980	396,357	(35,791)
Endowment investments at:				
Beginning of year	3,079,097	125,060	3,204,157	3,239,948
End of year	\$ 3,462,474	138,040	3,600,514	3,204,157

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Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

**(4) Notes and Accounts Receivable**

Components of notes and accounts receivable at June 30, 2004 and 2003 are shown below:

	<b>2004</b>		<b>2003</b>	
	<b>University</b>	<b>Hospitals</b>	<b>University</b>	<b>Hospitals</b>
Patients	\$ 71,056	146,343	86,673	185,002
Students:				
Loans	120,355	—	127,545	—
Tuition and fees	3,949	—	4,913	—
U.S. Government	16,554	—	15,667	—
All other	60,226	—	50,386	—
Subtotal	272,140	146,343	285,184	185,002
Less allowance for doubtful accounts (primarily patient receivables)	(63,053)	(43,939)	(73,175)	(71,210)
Total	\$ 209,087	102,404	212,009	113,792

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

Components of land, buildings, equipment, and books at June 30, 2004 and 2003 are shown below:

	<b>2004</b>		<b>2003</b>	
	<b>University</b>	<b>Hospitals</b>	<b>University</b>	<b>Hospitals</b>
Land	\$ 37,838	21,905	28,565	21,905
Buildings	1,051,237	389,026	883,008	376,824
Equipment	241,725	263,019	270,873	237,579
Books	178,904	—	167,270	—
Construction in-progress	262,514	113,738	235,572	64,682
Subtotal	1,772,218	787,688	1,585,288	700,990
Less accumulated depreciation	(658,758)	(375,271)	(642,886)	(339,522)
Total	\$ 1,113,460	412,417	942,402	361,468



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Notes to Consolidated Financial Statements  
June 30, 2004 and 2003  
(In thousands of dollars)

**(6) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2004 and 2003 are shown below:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2004</u>	<u>2003</u>
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	5.6% – 5.9%	\$ 3,925	4,215
Series 1993B	—	—	—	36,975
Series 1993C	—	—	—	9,100
Series 1998A	2039	5.0% – 5.3%	125,000	125,000
Series 2001A	2042	5.3%	75,000	75,000
Series 2001B-2	2037	4.0%	40,000	40,000
Series 2003A	2034	2.0% – 5.3%	200,000	—
Illinois Health Facilities Authority (IHFA) – Series 1985				
Unamortized (discount)	2021	5.5%	61,850	61,965
			(4,279)	(6,089)
Total fixed rate			<u>501,496</u>	<u>346,166</u>
Variable rate:				
Illinois Student Assistance Commission				
IEFA:	2004	1.1%	78,692	87,170
Series 1985 NORC				
Pooled financing program	2007	1.1%	132	193
Series 1998B	2011	1.1%	8,625	8,625
Series 2001B-1	2026	4.4%	90,510	90,510
Series 2001B-3	2037	1.0%	60,000	60,000
Series 2003B	2037	1.0% – 1.7%	75,000	75,000
Bank line of credit (\$65,000 available)	2034	1.0%	50,000	—
	2004	1.5%	5,500	—
Total variable rate			<u>368,459</u>	<u>321,498</u>
Total University			<u>869,955</u>	<u>667,664</u>
Hospitals:				
Fixed rate:				
IHFA:				
Series 1993A	—	—	—	30,190
Series 1993B	—	—	—	41,000
Series 2001 Serial bond	2024	4.0 – 5.1%	36,725	36,725
Series 2001 Term bond	2032	5.0%	28,100	28,100
Series 2001 Term bond	2037	5.1%	24,065	24,065
Series 2003	2015	4.0 – 6.0%	65,290	—
Unamortized premium (discount)	—	—	3,575	(1,151)
Total fixed rate			<u>157,755</u>	<u>158,929</u>
Variable rate:				
IHFA:				
Series 1994C	2027	1.1%	55,400	55,400
Series 1998	2027	1.1%	115,000	116,000
IEFA pooled financing program	2029	1.0%	27,866	27,866
Bank and other notes	2003	—	—	486
Total variable rate			<u>198,266</u>	<u>199,752</u>
Total Hospitals			<u>356,021</u>	<u>358,681</u>
Total notes and bonds payable			<u>\$ 1,225,976</u>	<u>1,026,345</u>

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

As of June 30, 2004 and 2003, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from notes and bonds payable was \$6,495 and \$92,450, respectively, for the University, and \$105,375 and \$105,775, respectively, for the Hospitals.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2005 through 2009 are approximately \$2,461; \$5,525; \$12,718; \$7,704; and \$7,463, respectively.

Principal payments required in each of the five years ending June 30, 2005 through 2009 for the Hospitals' notes and bonds are approximately \$5,550; \$7,120; \$7,390; \$8,535; and \$8,845, respectively.

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2004 and 2003, based on quoted market prices for the same or similar issues.

#### **(7) Collateral for Notes and Bonds Payable**

The University notes and bonds payable are secured by certain physical properties with a carrying value of approximately \$225 as of June 30, 2004. In addition, at June 30, 2004, the University had approximately \$7,981 of assets held by trustees for debt service.

Each of the Hospitals' IHFA bond series is collateralized and subject to certain restrictions. The Hospitals Series 1994, 1998, 2001, and 2003 bonds are guaranteed by a municipal bond insurance policy.

Payment on the University and Hospitals IEFA Pooled Financing Program bonds is guaranteed by a bank letter of credit.

#### **(8) Securities Loaned**

The University has an agreement with its investment custodian to lend University securities to brokers in exchange for a fee. Among other provisions that limit the University's risk, the security lending agreement specifies that the custodian is responsible for the lending of securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. At June 30, 2004 and 2003, investment securities with an aggregate market value of \$487,325 and \$496,078, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of \$288,662 and \$283,435 and noncash collateral of \$208,897 and \$225,916, at June 30, 2004 and 2003, respectively. In accordance with SFAS No. 140, the cash collateral is shown as both an asset and liability of the University.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

**(9) Pledges**

Pledges receivable at June 30, 2004 and 2003 are shown below:

	<b>2004</b>		<b>2003</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Unconditional promises expected to be collected in:				
Less than one year	\$ 56,991	9,891	45,751	11,213
One year to five years	104,497	17,570	107,638	25,332
More than five years	13,142	—	15,489	—
	<u>174,630</u>	<u>27,461</u>	<u>168,878</u>	<u>36,545</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(41,636)</u>	<u>(1,091)</u>	<u>(38,751)</u>	<u>(1,900)</u>
Total	<u>\$ 132,994</u>	<u>26,370</u>	<u>130,127</u>	<u>34,645</u>

**(10) Self-insurance Liability**

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the year ended June 30, 2004, was \$15,000 per claim and unlimited in annual aggregate. Claims in excess of \$15,000 are subject to an additional self-insurance retention limited to \$10,000 per claim and \$10,000 in annual aggregate. The self-insurance retention for the year ended June 30, 2003 was \$10,000 per claim and \$32,000 in annual aggregate. The Hospitals are included under this insurance program and are charged for their portion of self-insurance costs. The University and Hospitals also maintain a self-insurance program for workers' compensation and certain other liability claims.

Under the medical malpractice self-insurance program, the University makes 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 \$45,000 higher than the amount recorded in the consolidated financial statements at June 30, 2004. The interest rate assumed in determining the present value was 7.6%.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2004 and 2003 is presented below:

	2004		2003	
	University	Hospitals	University	Hospitals
Medical malpractice	\$ 140,124	—	123,420	—
Workers' compensation	3,100	6,746	3,100	6,088
Other	4,097	—	5,804	—
Total	\$ 147,321	6,746	132,324	6,088

**(11) Pension Plans and Other Postretirement Benefits**

Substantially all personnel of the University participate in either the defined contribution pension plan for academic staff or the defined benefit and contribution pension plans for nonacademic personnel. The majority of Hospitals employees participate in the University's pension plan for nonacademic employees.

In addition to providing pension benefits, the University provides certain health care benefits for retired employees. All Medicare eligible tenured faculty who elect to participate in the University Faculty 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.

Effective with the June 30, 2004 fiscal year end, the measurement date for the University's defined benefit pension plan for nonacademic personnel was changed from March 31 to June 30. The measurement date for the post-retirement health care benefit plan is June 30.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

The obligation, funded status, and amounts recognized in the financial statements for the pension plan and postretirement plans are shown below:

	<u>Defined benefit pension plan</u>		<u>Postretirement health care benefits</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 305,659	248,882	92,828	56,206
Service cost	16,784	12,578	3,975	2,594
Interest cost	19,412	18,156	5,938	4,128
Amendments to the plan	—	—	(19,746)	—
Benefits paid	(27,022)	(20,979)	(4,272)	(4,494)
Actuarial loss	20,965	47,022	26,000	34,394
Change in measurement date	9,524	—	—	—
Benefit obligation at end of year	<u>\$ 345,322</u>	<u>305,659</u>	<u>104,723</u>	<u>92,828</u>
Change in fair value of plan assets:				
Fair value of plan assets				
at beginning of year	\$ 233,281	313,178	18,638	17,756
Actual return on plan assets	85,461	(58,918)	1,749	882
Plan participant contributions	—	—	1,846	1,826
Employer contributions	—	—	5,991	4,494
Benefits paid	(27,022)	(20,979)	(6,117)	(6,320)
Fair value of plan assets at end of year	<u>\$ 291,720</u>	<u>233,281</u>	<u>22,107</u>	<u>18,638</u>
Reconciliation of funded status:				
Funded status	\$ (53,602)	(72,378)	(82,616)	(74,190)
Unrecognized actuarial loss	96,520	124,369	73,466	53,582
Unrecognized transition obligation	—	—	7,195	7,995
Unrecognized prior service cost (benefit)	11,139	13,565	(26,911)	(7,745)
Net amount recognized	<u>\$ 54,057</u>	<u>65,556</u>	<u>(28,866)</u>	<u>(20,358)</u>
Amounts recognized in consolidated financial statements:				
Prepaid benefit cost	\$ 54,057	65,556	—	—
Accrued benefit cost	—	(76,064)	(28,866)	(20,358)
Intangible asset	—	13,565	—	—
Minimum pension liability adjustment	—	62,499	—	—
Net amount recognized	<u>\$ 54,057</u>	<u>65,556</u>	<u>(28,866)</u>	<u>(20,358)</u>

The accumulated benefit obligation for the defined benefit pension plan was \$269,347 and \$243,789 at June 30, 2004 and March 31, 2003, respectively.

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Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

At March 31, 2003, the accumulated benefit obligation for the defined benefit pension plan exceeded the plan's assets, thus creating an unfunded accumulated benefit obligation. This situation required the recording of a minimum pension liability adjustment of \$62,499, which is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2003. At June 30, 2004, plan assets exceeded the accumulated benefit obligation thus eliminating the need to maintain a minimum pension liability. This situation required the reversal of the minimum pension liability adjustment recorded in fiscal 2003, which is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2004.

***Components of Net Periodic Benefit Cost (Income)***

	Defined benefit pension plan		Postretirement health care benefits	
	2004	2003	2004	2003
Service cost	\$ 16,784	12,578	3,975	2,594
Interest cost	19,412	18,156	5,938	4,128
Expected return on plan assets	(27,123)	(31,292)	(1,563)	(1,417)
Amortization of prior service cost (benefit)	2,426	2,938	(581)	(581)
Amortization of transition obligation	—	—	800	800
Amortization of actuarial (gain) loss	—	(2,953)	2,461	773
Net periodic benefit cost (income)	\$ 11,499	(573)	11,030	6,297

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$24,654 in fiscal 2004 and \$23,042 in fiscal 2003.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

***Actuarial Assumptions***

The weighted average assumptions used in the accounting for the pension and postretirement plans are shown below:

	Defined benefit pension plan		Postretirement health care benefits	
	2004	2003	2004	2003
Discount rate	6.25%	6.5%	6.25%	6.5%
Expected return on plan assets	8.0	8.0	8.0	8.0
Rate of compensation increase	4.2	4.0	—	—
Health care cost trend rates:				
Next two fiscal years	—	—	9.0 - 10.0	9.0 - 10.0
Next seven fiscal years	—	—	5.0 - 10.0	5.0 - 8.0
Thereafter	—	—	5.0	5.0

The expected return on plan assets assumptions for both the defined benefit pension plan and post-retirement health care benefits plan is based on historical returns for similar investment portfolios.

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

	2004	2003
Effect on total service cost and interest cost:		
One percentage point increase	\$ 3,095	1,919
One-percentage point decrease	(2,380)	(1,509)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	16,767	21,937
One percentage point decrease	(13,417)	(17,592)

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

***Plan Assets***

Weighted-average asset allocations by asset category are as follows:

	<b>Defined benefit pension plan</b>		<b>Postretirement health care benefits</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Domestic public equities	66 %	66 %	52 %	52 %
International public equities	21	21	—	—
Fixed income	13	13	48	48
	100 %	100 %	100 %	100 %

Plan assets for the defined benefit pension plan are managed through the Teachers Insurance and Annuity Association and College Retirement Equities Fund. The target asset allocation of 65% domestic public equities, 20% international public equities, and 15% 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 postretirement health care benefit plan are managed by the University and have a target asset allocation of 50% domestic public equities and 50% fixed income securities. Typical health plans have high and variable cash needs. The asset allocation targets reflect the assumption that cash flow out of plan assets is not expected in the short-term.

***Contributions***

The University expects to make a contribution of \$10,729 to its postretirement health care plan and no contribution to its defined benefit pension plan in fiscal 2005.

***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:

<b>Fiscal year</b>	<b>Defined benefit pension plan</b>	<b>Postretirement health care benefits</b>
2005	\$ 16,454	3,970
2006	16,203	4,202
2007	17,215	4,522
2008	17,932	4,764
2009	18,990	5,000
2010-2014	113,331	29,169



**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

***Prescription Drug Act***

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The accumulated postretirement benefit obligation and costs disclosed above do not include the economic impact, if any, associated with the federal subsidy provided by the Act. The University is still in the process of reviewing the impact of the Act in order to conclude whether the benefits provided by the postretirement welfare plans are actuarially equivalent to Medicare Part D under the Act.

***Curtailed Pension Plan***

Prior to its sale by the Hospitals in June 2002, Weiss Memorial Hospital maintained a separate noncontributory defined benefit pension plan covering substantially all their employees. Effective June 3, 2002, the Hospitals assumed sponsorship of the Weiss benefit plan. Prior to assumption of the benefit plan, Weiss curtailed the plan by freezing participation and benefit accruals. At June 30, 2004 and 2003, the accumulated benefit obligation for the plan exceeded the plan's assets thus creating an unfunded accumulated benefit obligation requiring the recording of a minimum pension liability adjustment of \$5,984 and \$9,159 at June 30, 2004 and 2003, respectively.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

**(12) Functional Classification of Expenses**

Expenses by functional classification for the years ended June 30, 2004 and 2003 are shown below:

	<b>2004</b>	<b>2003</b>
University:		
Academic and research:		
Instruction	\$ 520,736	496,793
Research	185,930	176,311
Auxiliary enterprises	122,763	116,830
Library	17,506	15,468
Student services	33,708	28,000
Operation and maintenance of physical plant	89,687	71,408
Depreciation	63,381	53,213
Interest on notes and bonds	22,017	22,596
Total academic and research	1,055,728	980,619
Administration:		
Institutional support	113,512	85,590
Operation and maintenance of physical plant	4,341	3,253
Depreciation	5,254	5,197
Interest on notes and bonds	722	1,740
Total administration	123,829	95,780
Total University	1,179,557	1,076,399
Hospitals:		
Hospital services	670,519	622,518
Total	\$ 1,850,076	1,698,917

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

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(In thousands of dollars)

### (13) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's board of trustees are faculty members or officers of the University. Program related revenue for the years ended December 31, 2003 and 2002 was \$65,267 and \$59,991, respectively. Unrestricted net assets at December 31, 2003 and 2002 were \$5,982 and \$4,047, respectively. In addition, the University has guaranteed \$2,448 of NORC's debt. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

The University operates Argonne National Laboratory under a contract with the U.S. Department of Energy, which provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The expenditures under this contract and the related reimbursements of \$543,704 in fiscal year 2004 and \$527,553 in fiscal year 2003 are not included in the consolidated statements of activities. Also, net assets relating to Argonne National Laboratory are owned by the United States government and, therefore, are not included in the consolidated balance sheets.

### (14) Contingencies

Various lawsuits, claims, and other contingent liabilities arise in the ordinary course of the University's education, research, and health care 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

## Statements of Activities Information – University

Years ended June 30, 2004 and 2003

(In thousands of dollars)

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 393,186	364,765
Less:		
Undergraduate student aid	(43,223)	(37,777)
Graduate student aid	(122,940)	(114,881)
Tuition and fees – net	<u>227,023</u>	<u>212,107</u>
Government grants and contracts	286,350	254,338
Private gifts, grants, and contracts	83,948	88,584
Endowment payout	179,379	168,312
Earnings on other investments	4,406	11,779
Patient care	147,211	150,246
Auxiliaries	160,387	143,157
Other income	<u>118,226</u>	<u>99,006</u>
Total operating revenue	<u>1,206,930</u>	<u>1,127,529</u>
Expenses:		
Compensation:		
Academic salaries	311,348	299,860
Staff salaries	275,118	266,739
Benefits	<u>130,086</u>	<u>118,648</u>
Total compensation	<u>716,552</u>	<u>685,247</u>
Other operating expenses:		
Utilities, alterations, and repairs	32,777	28,195
Depreciation	68,635	58,410
Interest	22,739	24,336
Supplies, services, and other	314,109	264,270
Insurance	<u>24,745</u>	<u>15,941</u>
Total other operating expenses	<u>463,005</u>	<u>391,152</u>
Total operating expenses	<u>1,179,557</u>	<u>1,076,399</u>
Excess of operating revenue over expenses	<u>27,373</u>	<u>51,130</u>

**THE UNIVERSITY OF CHICAGO**

## Statements of Activities Information – University

Years ended June 30, 2004 and 2003

(In thousands of dollars)

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains (losses)	\$ 312,098	(81,801)
Minimum pension liability adjustment	62,499	(62,499)
Other, net	<u>(9,731)</u>	<u>(30,494)</u>
Change in unrestricted net assets from nonoperating activities	<u>364,866</u>	<u>(174,794)</u>
Increase (decrease) in unrestricted net assets	<u>392,239</u>	<u>(123,664)</u>
Changes in temporarily restricted net assets:		
Private gifts	43,266	43,609
Endowment payout	225	192
Investment gains	1,925	234
Other, net	<u>(45,124)</u>	<u>(34,880)</u>
Increase in temporarily restricted net assets	<u>292</u>	<u>9,155</u>
Changes in permanently restricted net assets:		
Private gifts	45,357	29,431
Endowment payout	2,244	2,019
Investment gains (losses)	3,131	(1,041)
Other, net	<u>10,328</u>	<u>3,985</u>
Increase in permanently restricted net assets	<u>61,060</u>	<u>34,394</u>
Increase (decrease) in net assets	453,591	(80,115)
Net assets at beginning of year	<u>3,735,249</u>	<u>3,815,364</u>
Net assets at end of year	<u>\$ 4,188,840</u>	<u>3,735,249</u>

See accompanying independent auditors' report.

## THE UNIVERSITY OF CHICAGO

## Balance Sheet Information – University

June 30, 2004 and 2003

(In thousands of dollars)

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Cash and cash equivalents	\$ —	17,141
Notes and accounts receivable	209,087	212,009
Collateral held for securities loaned	288,662	283,435
Inventories	8,670	9,022
Prepaid expenses and other assets	55,923	28,905
Pledges receivable	132,994	130,127
Investments	4,015,534	3,477,946
Land, buildings, equipment, and books	1,113,460	942,402
Total assets	<u>\$ 5,824,330</u>	<u>5,100,987</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 205,778	153,448
Deferred revenue	60,320	68,681
Payable under securities loan agreements	288,662	283,435
Assets held in custody for others	24,302	21,216
Self-insurance liability	147,321	132,324
Notes and bonds payable	869,955	667,664
Refundable U.S. Government student loan funds	39,152	38,970
Total liabilities	<u>1,635,490</u>	<u>1,365,738</u>
Net assets:		
Unrestricted	3,096,745	2,704,506
Temporarily restricted	286,404	286,112
Permanently restricted	805,691	744,631
Total net assets	<u>4,188,840</u>	<u>3,735,249</u>
Total liabilities and net assets	<u>\$ 5,824,330</u>	<u>5,100,987</u>

See accompanying independent auditors' report.