

THE UNIVERSITY OF CHICAGO

Consolidated Financial Statements and
Supplemental University Information

June 30, 2005 and 2004

(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 30, have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

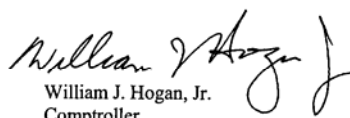
The consolidated financial statements have been audited by the independent accounting firm KPMG LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. KPMG did not audit the financial statements of The University of Chicago Hospitals (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 its 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, 2005 and 2004, 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 15% and 16% and total operating revenue constituting 39% and 38% of the related consolidated totals in 2005 and 2004, respectively. Our opinion, insofar as it relates to the amounts included for the Hospitals, 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 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, 2005 and 2004, 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, 2005

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2005 and 2004

(In thousands of dollars)

	2005			2004
	University	Hospitals	Consolidated	Consolidated
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	\$ 420,361	—	420,361	393,186
Less:				
Undergraduate student aid	(46,329)	—	(46,329)	(43,223)
Graduate student aid	(128,317)	—	(128,317)	(122,940)
Tuition and fees – net	245,715	—	245,715	227,023
Government grants and contracts	305,291	—	305,291	286,350
Private gifts, grants, and contracts	92,551	529	93,080	84,322
Endowment payout	176,840	7,074	183,914	186,701
Earnings on other investments	13,490	11,786	25,276	13,301
Patient care	161,873	783,862	945,735	825,915
Auxiliaries	160,725	—	160,725	160,387
Other income	127,304	33,479	160,783	149,221
Total operating revenue	1,283,789	836,730	2,120,519	1,933,220
Expenses:				
Compensation:				
Academic salaries	330,129	—	330,129	311,348
Staff salaries	298,186	325,273	623,459	572,386
Benefits	141,366	68,436	209,802	187,009
Total compensation	769,681	393,709	1,163,390	1,070,743
Other operating expenses:				
Utilities, alterations, and repairs	39,035	20,737	59,772	52,723
Depreciation	77,074	43,994	121,068	109,465
Interest	27,092	9,191	36,283	33,744
Supplies, services, and other	332,344	259,272	591,616	541,444
Insurance	28,977	20,905	49,882	41,957
Total other operating expenses	504,522	354,099	858,621	779,333
Total operating expenses	1,274,203	747,808	2,022,011	1,850,076
Excess of operating revenue over expenses	9,586	88,922	98,508	83,144
Gain (loss) from operation and sale of discontinued units	—	303	303	(916)
Excess of operating revenue over expenses and gain (loss) from discontinued units	\$ 9,586	89,225	98,811	82,228

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

Years ended June 30, 2005 and 2004

(In thousands of dollars)

	2005			2004
	University	Hospitals	Consolidated	Consolidated
Changes in unrestricted net assets:				
Nonoperating:				
Investment gains	\$ 425,294	28,921	454,215	342,679
Minimum pension liability adjustment	(70,432)	(8,471)	(78,903)	65,674
Loss on debt refinancing	(8,998)	—	(8,998)	—
Other, net	(13,108)	(2,598)	(15,706)	(24,356)
Change in unrestricted net assets from nonoperating activities	332,756	17,852	350,608	383,997
Increase in unrestricted net assets	342,342	107,077	449,419	466,225
Changes in temporarily restricted net assets:				
Private gifts	77,563	1,367	78,930	46,002
Endowment payout	285	—	285	225
Investment gains	3,556	—	3,556	1,925
Other, net	(38,790)	(14,386)	(53,176)	(46,515)
Increase (decrease) in temporarily restricted net assets	42,614	(13,019)	29,595	1,637
Changes in permanently restricted net assets:				
Private gifts	44,086	—	44,086	45,717
Endowment payout	1,728	—	1,728	2,244
Investment gains	2,343	—	2,343	3,131
Other, net	6,544	(7)	6,537	10,328
Increase (decrease) in permanently restricted net assets	54,701	(7)	54,694	61,420
Increase in net assets	439,657	94,051	533,708	529,282
Net assets at beginning of year	4,188,840	482,872	4,671,712	4,142,430
Net assets at end of year	\$ 4,628,497	576,923	5,205,420	4,671,712

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2005 and 2004

(In thousands of dollars)

Assets	2005			2004
	University	Hospitals	Consolidated	Consolidated
Cash and cash equivalents	\$ —	47,948	47,948	51,483
Notes and accounts receivable	232,670	109,171	341,841	311,491
Collateral held for securities loaned	571,734	—	571,734	288,662
Inventories	8,439	6,115	14,554	12,300
Prepaid expenses and other assets	12,573	48,071	60,644	104,661
Pledges receivable	163,988	17,785	181,773	159,364
Investments	4,678,865	483,890	5,162,755	4,442,297
Land, buildings, equipment, and books	1,223,519	466,455	1,689,974	1,525,877
Total assets	\$ 6,891,788	1,179,435	8,071,223	6,896,135
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 246,218	245,223	491,441	431,944
Deferred revenue	73,728	—	73,728	60,320
Payable under securities loan agreements	571,734	—	571,734	288,662
Assets held in custody for others	27,347	—	27,347	24,302
Self-insurance liability	162,011	7,238	169,249	154,067
Notes and bonds payable	1,142,731	350,051	1,492,782	1,225,976
Refundable U.S. Government student loan funds	39,522	—	39,522	39,152
Total liabilities	2,263,291	602,512	2,865,803	2,224,423
Net assets:				
Unrestricted	3,439,087	535,347	3,974,434	3,525,015
Temporarily restricted	329,018	35,919	364,937	335,342
Permanently restricted	860,392	5,657	866,049	811,355
Total net assets	4,628,497	576,923	5,205,420	4,671,712
Total liabilities and net assets	\$ 6,891,788	1,179,435	8,071,223	6,896,135

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Cash Flows
Years ended June 30, 2005 and 2004
(In thousands of dollars)

	2005			2004
	University	Hospitals	Consolidated	Consolidated
Cash flows from operating activities:				
Increase in net assets	\$ 439,657	94,051	533,708	529,282
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation	77,074	43,994	121,068	109,465
Loss on debt refinancing	8,998	—	8,998	—
Loss on disposal of land, buildings, equipment, and books	3,611	217	3,828	16,541
Net gain on investments	(532,260)	(16,427)	(548,687)	(458,932)
Private gifts and grants restricted for long-term investment	(121,649)	(1,360)	(123,009)	(91,719)
Other nonoperating changes	37,357	5,870	43,227	43,728
Pension expense	15,078	7,000	22,078	11,499
Minimum pension liability adjustment	70,432	8,471	78,903	(65,674)
Changes in assets and liabilities:				
Notes and accounts receivable	(14,976)	(6,767)	(21,743)	6,596
Prepaid expenses and other assets	(7,853)	(4,733)	(12,586)	22,003
Accounts payable and other liabilities	31,386	16,508	47,894	34,608
Self-insurance liability	14,690	492	15,182	15,655
Total adjustments	(418,112)	53,265	(364,847)	(356,230)
Net cash provided by operating activities	21,545	147,316	168,861	173,052
Cash flows from investing activities:				
Purchase of investments	(1,248,971)	(123,409)	(1,372,380)	(1,062,655)
Proceeds from sale of investments	1,117,901	85,245	1,203,146	964,957
Acquisition of land, buildings, equipment, and books	(198,944)	(98,366)	(297,310)	(338,932)
Loans disbursed	(65,584)	—	(65,584)	(63,112)
Principal collected on loans	56,977	—	56,977	70,826
Proceeds from sale of discontinued operations	—	—	—	1,000
Net cash used in investing activities	(338,621)	(136,530)	(475,151)	(427,916)
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	714,122	—	714,122	381,136
Principal payments on notes and bonds payable	(450,344)	(9,266)	(459,610)	(185,676)
Proceeds from private gifts and grants restricted for long-term investment	90,655	9,945	100,600	97,127
Other nonoperating changes	(37,357)	(15,000)	(52,357)	(47,021)
Net cash provided by (used in) financing activities	317,076	(14,321)	302,755	245,566
Decrease in cash and cash equivalents	—	(3,535)	(3,535)	(9,298)
Cash and cash equivalents at:				
Beginning of year	—	51,483	51,483	60,781
End of year	\$ —	47,948	47,948	51,483
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 38,608	11,800	50,408	40,945

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004

(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 \$32,400 in fiscal 2005 and \$37,677 in fiscal 2004.

- 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	2005			Total	2004 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
University:					
Operating	\$ 81,998	17,854	—	99,852	189,870
Pledges	—	116,073	47,915	163,988	132,994
Student loans	—	—	13,713	13,713	12,636
Endowment	3,165,412	23,440	769,772	3,958,624	3,462,474
Annuity and life income	—	14,073	28,992	43,065	39,085
Net investment in physical properties	191,677	157,578	—	349,255	351,781
Subtotal	<u>3,439,087</u>	<u>329,018</u>	<u>860,392</u>	<u>4,628,497</u>	<u>4,188,840</u>
Hospitals:					
Operating	268,925	18,494	—	287,419	246,249
Pledges	—	17,425	360	17,785	26,370
Endowment	150,018	—	5,297	155,315	138,040
Net investment in physical properties	116,404	—	—	116,404	72,213
Subtotal	<u>535,347</u>	<u>35,919</u>	<u>5,657</u>	<u>576,923</u>	<u>482,872</u>
Total	<u>\$ 3,974,434</u>	<u>364,937</u>	<u>866,049</u>	<u>5,205,420</u>	<u>4,671,712</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, 2005 and 2004

(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 \$14,373 in fiscal 2005 and \$15,363 in fiscal 2004.

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.

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, 2005 and 2004 are \$40,731 and \$36,698, respectively, of private grant and contract receipts which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2005 and 2004 consists of the following:

	2005			2004
	<u>University</u>	<u>Hospitals</u>	<u>Total</u>	<u>Total</u>
Private gifts:				
Unrestricted as to use	\$ 16,918	529	17,447	15,775
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	21,802	—	21,802	21,538
Private grants and contracts	<u>53,831</u>	<u>—</u>	<u>53,831</u>	<u>47,009</u>
Total	<u>\$ 92,551</u>	<u>529</u>	<u>93,080</u>	<u>84,322</u>

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, between 4.5% and 5.5% of a twelve 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 exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5.1% and 5.0% for the fiscal years ended June 30, 2005 and 2004, respectively.

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 2005 and 2004 consists of the following:

	2005			2004
	University	Hospitals	Total	Total
Interest, dividends, and rents	\$ 77,786	3,004	80,790	68,551
Realized investment gains used to support the endowment payout formula	101,067	4,070	105,137	120,619
Total	\$ 178,853	7,074	185,927	189,170

Unrestricted operating endowment payout revenue for fiscal years 2005 and 2004 consists of the following:

	2005			2004
	University	Hospitals	Total	Total
Unrestricted payout	\$ 48,324	7,074	55,398	49,910
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	128,516	—	128,516	136,791
Total	\$ 176,840	7,074	183,914	186,701

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

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.

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 fair value of investments is based on quoted market prices, except for certain alternative investments, such as private equity, real assets, and absolute return, for which quoted market prices may not be available. The estimated fair value for absolute return investments is based on valuations provided by the external managers as of June 30. The estimated fair value for private equity and real asset investments is based on valuations provided by the external investment managers as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. The valuations for these alternative investments 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.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

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.

Reclassifications

Certain 2004 amounts have been reclassified to conform to the 2005 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.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

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 \$50,947 in fiscal year 2005 and \$43,869 in fiscal year 2004 has been reclassified as a reduction of patient care revenue and (2) realized investment gains of \$10,570 in fiscal year 2005 and \$1,550 in fiscal year 2004 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

The Hospitals have made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. During fiscal 2005 and fiscal 2004, the Hospitals transferred \$15,000 annually to the University in support of these programs.

(3) Investments

Fair values of investments at June 30, 2005 and 2004 are shown below:

	2005				2004 Total
	University and Hospitals endowment	Other investments		Total	
	University	Hospitals	Total		
Cash equivalents	\$ 20,492	2,757	—	23,249	127,457
Domestic public equities	923,642	48,500	186,386	1,158,528	1,056,687
International public equities	742,879	18,199	445	761,523	673,729
Private equity	657,665	3,830	17,994	679,489	619,520
Real assets	342,161	8,497	4,924	355,582	310,321
Absolute return	727,325	4,235	—	731,560	591,347
High yield bonds	196,637	7,326	—	203,963	176,782
Fixed income	479,804	249,641	108,365	837,810	553,729
Funds held in trust (primarily cash equivalents and bonds)	23,334	377,256	10,461	411,051	332,725
Total	\$ 4,113,939	720,241	328,575	5,162,755	4,442,297

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2005, the University had unfunded commitments of \$680,157 which are likely to be called through 2012.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2005 and 2004:

	2005			2004
	University	Hospitals	Consolidated	Consolidated
Investment return:				
Endowment yield (interest, dividends, and rents)	\$ 77,786	3,004	80,790	68,551
Realized gains on investments	340,724	13,602	354,326	111,907
Unrealized gains on investments	193,997	7,672	201,669	337,308
Total investment return	612,507	24,278	636,785	517,766
Endowment payout	(178,853)	(7,074)	(185,927)	(189,170)
Net investment return	433,654	17,204	450,858	328,596
Other changes in endowment investments:				
Gifts and pledge payments received in cash	50,877	71	50,948	47,667
Transfers to create funds functioning as endowment	9,828	—	9,828	18,025
Other changes	1,791	—	1,791	2,069
Total other changes in endowment investments	62,496	71	62,567	67,761
Net change in endowment investments	496,150	17,275	513,425	396,357
Endowment investments at:				
Beginning of year	3,462,474	138,040	3,600,514	3,204,157
End of year	\$ 3,958,624	155,315	4,113,939	3,600,514

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

(4) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2005 and 2004 are shown below:

	2005		2004	
	University	Hospitals	University	Hospitals
Patients	\$ 103,145	147,931	71,056	146,343
Students:				
Loans	128,880	—	120,355	—
Tuition and fees	4,636	—	3,949	—
U.S. Government	22,711	—	16,554	—
All other	64,381	—	60,226	—
Subtotal	323,753	147,931	272,140	146,343
Less allowance for doubtful accounts (primarily patient receivables)	(91,083)	(38,760)	(63,053)	(43,939)
Total	\$ 232,670	109,171	209,087	102,404

(5) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2005 and 2004 are shown below:

	2005		2004	
	University	Hospitals	University	Hospitals
Land	\$ 41,890	26,415	37,838	21,905
Buildings	1,231,339	500,512	1,051,237	389,026
Equipment	259,706	302,129	241,725	263,019
Books	190,532	—	178,904	—
Construction in-progress	225,346	53,061	262,514	113,738
Subtotal	1,948,813	882,117	1,772,218	787,688
Less accumulated depreciation	(725,294)	(415,662)	(658,758)	(375,271)
Total	\$ 1,223,519	466,455	1,113,460	412,417

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2005 and 2004
(In thousands of dollars)

(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 2005 and 2004 are shown below:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2005</u>	<u>2004</u>
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	5.7% – 6.0%	\$ 3,625	3,925
Series 1998A	2039	5.0% – 5.3%	124,945	125,000
Series 2001A	2042	5.3%	2,860	75,000
Series 2003A	2034	4.0% – 5.3%	195,375	200,000
Illinois Finance Authority (IFA):				
Series 2004A	2035	5.0%	100,000	—
Series 2004C	2040	3.8%	80,000	—
Illinois Health Facilities Authority (IHFA) – Series 1985				
Unamortized premium (discount)	2021	5.5%	61,735	61,850
			<u>2,902</u>	<u>(4,279)</u>
Total fixed rate			<u>571,442</u>	<u>461,496</u>
Variable rate:				
Illinois Student Assistance Commission (ISAC)				
	2005	3.0%	86,520	78,692
IEFA:				
Series 1985 NORC	2007	2.3%	71	132
Pooled financing program	2011	2.6%	7,543	8,625
Series 1998B	2026	3.1%	90,090	90,510
Series 2001B-1	2037	3.4%	60,000	60,000
Series 2001B-2	2037	4.0%	40,000	40,000
Series 2001B-3	2037	1.6%–2.8%	72,265	75,000
Series 2003B	2034	2.2%	50,000	50,000
IFA – Series 2004B	2035	2.2%	100,000	—
Bank line of credit (\$65,000 available)	2005	1.5%	64,800	5,500
Total variable rate			<u>571,289</u>	<u>408,459</u>
Total University			<u>1,142,731</u>	<u>869,955</u>
Hospitals:				
Fixed rate:				
IHFA:				
Series 2001 Serial bond	2024	4.0 – 5.4%	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 Serial bond	2015	4.0 – 5.0%	60,740	65,290
Unamortized premium			<u>3,155</u>	<u>3,575</u>
Total fixed rate			<u>152,785</u>	<u>157,755</u>
Variable rate:				
IHFA:				
Series 1994C	2027	2.2%	55,400	55,400
Series 1998	2027	2.3%	114,000	115,000
IEFA pooled financing program	2029	2.5%	27,866	27,866
Bank line of credit (\$15,000 available)			—	—
Total variable rate			<u>197,266</u>	<u>198,266</u>
Total Hospitals			<u>350,051</u>	<u>356,021</u>
Total notes and bonds payable			<u>\$ 1,492,782</u>	<u>1,225,976</u>

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

During fiscal 2005, the University issued \$280,000 in revenue bonds through the IFA consisting of \$100,000 (IFA Series 2004A) fixed rate revenue bonds, \$100,000 (IFA Series 2004B) adjustable rate revenue bonds, and \$80,000 (IFA Series 2004C) adjustable rate revenue bonds. The IFA Series 2004A fixed rate bonds and the IFA Series 2004B adjustable rate bonds were issued at an average interest rate of 4.6% and 1.7%, respectively. The IFA Series 2004C adjustable rate bonds were issued with an initial adjustable rate of 1.6%. Proceeds from the IFA Series 2004A and Series 2004B bonds are being used to finance the construction and renovation of certain educational facilities. Proceeds from the IFA Series 2004C bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust solely for the purpose of making principal and interest payments on \$70,965 of the IEFA Series 2001A bonds. Accordingly, \$70,965 of the bonds have been legally extinguished, and neither the indebtedness nor the assets of the irrevocable trusts are included in the consolidated balance sheets.

In order to reduce exposure to adjustable interest rates on variable rate debt, the University entered into a 35 year interest rate swap agreement in November 2004. The agreement has the effect of fixing the rate of interest at 3.8% for the \$80,000 IFA Series 2004C variable rate debt. The fair value of this swap agreement is the estimated amount that the University would pay or receive to terminate the agreement as of June 30, 2005, taking into account current interest rates and the current credit worthiness of the swap counter party. At June 30, 2005, the fair value of the interest rate swap agreement is an accrued obligation of \$7,555 included in accounts payable and accrued expenses. This financial instrument involves counter party credit exposure. The counter party for this swap transaction is a major financial institution that meets the University's criteria for financial stability and credit worthiness.

As of June 30, 2005 and 2004, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from notes and bonds payable was \$81,750 and \$6,495, respectively, for the University, and \$105,400 as of June 30, 2004, for the Hospitals.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2006 through 2010 are approximately \$6,848; \$12,821; \$7,811; \$11,270; and \$12,842, respectively.

Principal payments required in each of the five years ending June 30, 2006 through 2010 for the Hospitals' notes and bonds are approximately \$7,120; \$7,390; \$8,535; \$8,845; and \$8,615, respectively.

Included in the University's and Hospitals' notes and bonds payable are \$571,289 and \$197,266, respectively, of variable rate notes and bonds maturing through fiscal year 2037. In the event the University's and Hospitals' remarketing agents are unable to remarket the notes and bonds, they become a demand note and require immediate payment.

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2005 and 2004, based on quoted market prices for the same or similar issues.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

(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, 2005. In addition, at June 30, 2005, the University had approximately \$7,965 of assets held by trustees for debt service. ISAC bonds payable are fully collateralized by student loans receivable that are fully guaranteed by the federal government.

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, 2005 and 2004, investment securities with an aggregate market value of \$715,708 and \$487,325, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of \$571,734 and \$288,662 and noncash collateral of \$160,618 and \$208,897, at June 30, 2005 and 2004, respectively. Cash collateral is reported as both an asset and liability of the University.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

(9) Pledges

Pledges receivable at June 30, 2005 and 2004 are shown below:

	2005		2004	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Unconditional promises expected to be collected in:				
Less than one year	\$ 70,293	9,455	56,991	9,891
One year to five years	126,421	8,810	104,497	17,570
More than five years	13,534	—	13,142	—
	<u>210,248</u>	<u>18,265</u>	<u>174,630</u>	<u>27,461</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(46,260)</u>	<u>(480)</u>	<u>(41,636)</u>	<u>(1,091)</u>
Total	<u>\$ 163,988</u>	<u>17,785</u>	<u>132,994</u>	<u>26,370</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 years ended June 30, 2005, and 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 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 \$51,000 higher than the amount recorded in the consolidated financial statements at June 30, 2005. The interest rate assumed in determining the present value was 7.6%.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2005 and 2004 is presented below:

	2005		2004	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Medical malpractice	\$ 154,907	—	140,124	—
Workers' compensation	3,171	7,238	3,100	6,746
Other	3,933	—	4,097	—
Total	<u>\$ 162,011</u>	<u>7,238</u>	<u>147,321</u>	<u>6,746</u>

(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.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(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:

	Defined benefit pension plan		Postretirement health care benefits	
	2005	2004	2005	2004
Change in projected benefit obligation (PBO):				
PBO at beginning of year	\$ 345,322	305,659	104,723	92,828
Service cost	21,108	16,784	4,103	3,975
Interest cost	21,068	19,412	6,421	5,938
Amendments to the plan	910	—	—	(19,746)
Benefits paid	(23,186)	(27,022)	(4,914)	(4,272)
Actuarial loss, net	90,698	20,965	2,642	26,000
Change in measurement date	—	9,524	—	—
PBO at end of year	<u>\$ 455,920</u>	<u>345,322</u>	<u>112,975</u>	<u>104,723</u>
Change in fair value of plan assets:				
Fair value of plan assets				
at beginning of year	\$ 291,720	233,281	22,107	18,638
Actual return on plan assets	22,108	85,461	2,095	1,749
Employer contributions	14,000	—	11,673	5,992
Benefits paid	(23,186)	(27,022)	(4,914)	(4,272)
Fair value of plan assets at end of year	<u>\$ 304,642</u>	<u>291,720</u>	<u>30,961</u>	<u>22,107</u>
Reconciliation of funded status:				
Funded status	\$ (151,278)	(53,602)	(82,014)	(82,616)
Unrecognized actuarial loss	187,634	96,520	94,277	95,573
Unrecognized transition obligation	—	—	6,396	7,195
Unrecognized prior service cost (benefit)	9,622	11,139	(24,613)	(26,911)
Net amount recognized	<u>\$ 45,978</u>	<u>54,057</u>	<u>(5,954)</u>	<u>(6,759)</u>
Amounts recognized in consolidated financial statements:				
Prepaid (accrued) benefit cost	\$ (34,076)	54,057	(5,954)	(6,759)
Intangible asset	9,622	—	—	—
Minimum pension liability adjustment	70,432	—	—	—
Net amount recognized	<u>\$ 45,978</u>	<u>54,057</u>	<u>(5,954)</u>	<u>(6,759)</u>

The accumulated benefit obligation (ABO) for the defined benefit pension plan was \$338,718 and \$269,347 at June 30, 2005 and 2004, respectively.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

At June 30, 2004, plan assets for the defined benefit pension plan exceeded the ABO thus eliminating the need to maintain a minimum pension liability. This situation required the reversal of the \$62,499 minimum pension liability adjustment recorded in fiscal 2003, which is reported as a non-operating change in unrestricted net assets in the consolidated statement of activities in fiscal 2004. At June 30, 2005, the ABO exceeded plan assets thus creating an unfunded ABO. This situation required the recording of a minimum pension liability adjustment of \$70,432, which is reported as a non-operating change in unrestricted net assets in the consolidated statement of activities in fiscal 2005.

Components of Net Periodic Benefit Cost

	Defined benefit pension plan		Postretirement health care benefits	
	2005	2004	2005	2004
Service cost	\$ 21,108	16,784	4,103	3,975
Interest cost	21,068	19,412	6,421	5,938
Expected return on plan assets	(24,872)	(27,123)	(1,658)	(1,563)
Amortization of prior service cost (benefit)	2,426	2,426	(2,298)	(581)
Amortization of transition obligation	—	—	800	800
Amortization of actuarial loss	2,348	—	3,500	2,461
Net periodic benefit cost	\$ 22,078	11,499	10,868	11,030
Amounts included in the consolidated statement of activities:				
University	\$ 15,078	11,499	10,868	11,030
Hospitals	7,000	—	—	—
Total	\$ 22,078	11,499	10,868	11,030

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$26,532 in fiscal 2005 and \$24,654 in fiscal 2004 for the University and \$5,100 in fiscal 2005 and \$4,900 in fiscal 2004 for the Hospitals.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(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	
	2005	2004	2005	2004
Discount rate	5.0%	6.25%	5.0%	6.25%
Expected return on plan assets	8.0	8.0	6.5	8.0
Rate of compensation increase	4.2	4.2	—	—
Health care cost trend rates:				
Next two fiscal years	—	—	9.0 - 10.0	9.0 - 10.0
Next seven fiscal years	—	—	5.0 - 8.0	5.0 - 8.0
Thereafter	—	—	5.00	5.00

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:

	2005	2004
Effect on total service cost and interest cost:		
One percentage point increase	\$ 2,295	3,095
One-percentage point decrease	(1,758)	(2,380)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	17,736	16,767
One percentage point decrease	(13,974)	(13,417)

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

Plan Assets

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

	Defined benefit pension plan		Postretirement health care benefits	
	2005	2004	2005	2004
Domestic public equities	66 %	66 %	52 %	52 %
International public equities	20	21	—	—
Fixed income	14	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 no contribution to its postretirement health care plan and no contribution to its defined benefit pension plan in fiscal 2006.

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 plan	Postretirement health care benefits
2006	\$ 17,074	4,675
2007	17,277	4,003
2008	18,074	4,310
2009	19,228	4,536
2010	20,064	4,700
2011-2015	140,591	27,304

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(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 Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement health care 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 post-retirement benefit obligation effective June 30, 2005, the impact of which is to reduce the benefit obligation by \$36,076.

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, 2005 and 2004, 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 \$8,471 and \$(3,175) at June 30, 2005 and 2004, respectively.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(In thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2005 and 2004 are shown below:

	2005	2004
University:		
Academic and research:		
Instruction	\$ 547,553	506,571
Research	212,580	185,930
Auxiliary enterprises	104,211	103,185
Library	16,071	15,161
Student services	32,808	33,708
Operation and maintenance of physical plant	83,759	89,687
Depreciation	71,101	63,381
Interest on notes and bonds	25,894	22,017
Total academic and research	1,093,977	1,019,640
Administration:		
Institutional support	97,171	88,117
Informational services	45,604	38,922
Development	26,306	22,561
Operation and maintenance of physical plant	3,974	4,341
Depreciation	5,973	5,254
Interest on notes and bonds	1,198	722
Total administration	180,226	159,917
Total University	1,274,203	1,179,557
Hospitals:		
Hospital services	747,808	670,519
Total	\$ 2,022,011	1,850,076

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, 2005 and 2004

(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, 2004 and 2003 was \$97,339 and \$65,267, respectively. Unrestricted net assets at December 31, 2004 and 2003 were \$10,190 and \$5,982, respectively. In addition, the University has guaranteed \$3,174 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 \$517,495 in fiscal year 2005 and \$543,704 in fiscal year 2004 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, 2005 and 2004

(In thousands of dollars)

	<u>2005</u>	<u>2004</u>
Changes in unrestricted net assets:		
Operating:		
Revenue:		
Tuition and fees – gross	\$ 420,361	393,186
Less:		
Undergraduate student aid	(46,329)	(43,223)
Graduate student aid	(128,317)	(122,940)
Tuition and fees – net	<u>245,715</u>	<u>227,023</u>
Government grants and contracts	305,291	286,350
Private gifts, grants, and contracts	92,551	83,948
Endowment payout	176,840	179,379
Earnings on other investments	13,490	4,406
Patient care	161,873	147,211
Auxiliaries	160,725	160,387
Other income	<u>127,304</u>	<u>118,226</u>
Total operating revenue	<u>1,283,789</u>	<u>1,206,930</u>
Expenses:		
Compensation:		
Academic salaries	330,129	311,348
Staff salaries	298,186	275,118
Benefits	<u>141,366</u>	<u>130,086</u>
Total compensation	<u>769,681</u>	<u>716,552</u>
Other operating expenses:		
Utilities, alterations, and repairs	39,035	32,777
Depreciation	77,074	68,635
Interest	27,092	22,739
Supplies, services, and other	332,344	314,109
Insurance	<u>28,977</u>	<u>24,745</u>
Total other operating expenses	<u>504,522</u>	<u>463,005</u>
Total operating expenses	<u>1,274,203</u>	<u>1,179,557</u>
Excess of operating revenue over expenses	<u>9,586</u>	<u>27,373</u>

THE UNIVERSITY OF CHICAGO

Statements of Activities Information – University

Years ended June 30, 2005 and 2004

(In thousands of dollars)

	<u>2005</u>	<u>2004</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains	\$ 425,294	312,098
Minimum pension liability adjustment	(70,432)	62,499
Loss on debt refinancing	(8,998)	—
Other, net	<u>(13,108)</u>	<u>(9,731)</u>
Change in unrestricted net assets from nonoperating activities	<u>332,756</u>	<u>364,866</u>
Increase in unrestricted net assets	<u>342,342</u>	<u>392,239</u>
Changes in temporarily restricted net assets:		
Private gifts	77,563	43,266
Endowment payout	285	225
Investment gains	3,556	1,925
Other, net	<u>(38,790)</u>	<u>(45,124)</u>
Increase in temporarily restricted net assets	<u>42,614</u>	<u>292</u>
Changes in permanently restricted net assets:		
Private gifts	44,086	45,357
Endowment payout	1,728	2,244
Investment gains	2,343	3,131
Other, net	<u>6,544</u>	<u>10,328</u>
Increase in permanently restricted net assets	<u>54,701</u>	<u>61,060</u>
Increase in net assets	439,657	453,591
Net assets at beginning of year	<u>4,188,840</u>	<u>3,735,249</u>
Net assets at end of year	<u>\$ 4,628,497</u>	<u>4,188,840</u>

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO

Balance Sheet Information – University

June 30, 2005 and 2004

(In thousands of dollars)

Assets	2005	2004
Cash and cash equivalents	\$ —	—
Notes and accounts receivable	232,670	209,087
Collateral held for securities loaned	571,734	288,662
Inventories	8,439	8,670
Prepaid expenses and other assets	12,573	55,923
Pledges receivable	163,988	132,994
Investments	4,678,865	4,015,534
Land, buildings, equipment, and books	1,223,519	1,113,460
Total assets	<u>\$ 6,891,788</u>	<u>5,824,330</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 246,218	205,778
Deferred revenue	73,728	60,320
Payable under securities loan agreements	571,734	288,662
Assets held in custody for others	27,347	24,302
Self-insurance liability	162,011	147,321
Notes and bonds payable	1,142,731	869,955
Refundable U.S. Government student loan funds	39,522	39,152
Total liabilities	<u>2,263,291</u>	<u>1,635,490</u>
Net assets:		
Unrestricted	3,439,087	3,096,745
Temporarily restricted	329,018	286,404
Permanently restricted	860,392	805,691
Total net assets	<u>4,628,497</u>	<u>4,188,840</u>
Total liabilities and net assets	<u>\$ 6,891,788</u>	<u>5,824,330</u>

See accompanying independent auditors' report.