

THE UNIVERSITY OF CHICAGO

OMB Circular A-133 Audit Report

Year ended June 30, 2007

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO

Table of Contents

| | Page |
|---|-------------|
| Independent Auditors' Report | 1 |
| Consolidated Financial Statements | 3 |
| Schedule of Expenditures of Federal Awards | 30 |
| Notes to Schedule of Expenditures of Federal Awards | 38 |
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 42 |
| Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 | 44 |
| Schedule of Findings and Questioned Costs | 47 |



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 (the University) as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 15% and 15% and total revenues constituting 32% and 30% of the related consolidated totals in 2007 and 2006, respectively. Our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2007, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information presented in the University and Medical Center columns on pages 3 through 6 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, based on our audits and with respect to the amounts included for the Medical Center, the report of other auditors, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Our 2007 audits were performed for the purpose of forming an opinion on the consolidated financial statements of the University taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2007 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2007 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2007 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic consolidated financial statements taken as a whole.

KPMG LLP

September 21, 2007

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2007 and 2006

(In thousands of dollars)

| Assets | 2007 | | | 2006 |
|---|---------------------|------------------|-------------------|------------------|
| | University | Medical Center | Consolidated | Consolidated |
| Cash and cash equivalents | \$ — | 88,056 | 88,056 | 21,726 |
| Notes and accounts receivable | 230,527 | 94,157 | 324,684 | 319,636 |
| Collateral held for securities loaned | 494,429 | — | 494,429 | 539,719 |
| Prepaid expenses and other assets | 34,260 | 85,980 | 120,240 | 79,527 |
| Pledges receivable | 192,927 | 18,430 | 211,357 | 211,695 |
| Investments | 6,524,430 | 732,504 | 7,256,934 | 5,876,287 |
| Land, buildings, equipment, and books | 1,465,161 | 533,450 | 1,998,611 | 1,797,906 |
| Total assets | \$ 8,941,734 | 1,552,577 | 10,494,311 | 8,846,496 |
| Liabilities and Net Assets | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 227,793 | 219,138 | 446,931 | 433,198 |
| Deferred revenue | 81,358 | — | 81,358 | 76,703 |
| Payable under securities loan agreements | 494,429 | — | 494,429 | 539,719 |
| Assets held in custody for others | 35,626 | — | 35,626 | 31,199 |
| Self-insurance liability | 188,359 | 6,557 | 194,916 | 177,534 |
| Pension and other post retirement benefit obligations | 176,947 | 4,639 | 181,586 | 32,516 |
| Asset retirement obligation | 58,805 | 7,946 | 66,751 | 77,139 |
| Notes and bonds payable | 1,385,846 | 403,735 | 1,789,581 | 1,475,488 |
| Refundable U.S. Government student loan funds | 37,300 | — | 37,300 | 37,064 |
| Total liabilities | 2,686,463 | 642,015 | 3,328,478 | 2,880,560 |
| Net assets: | | | | |
| Unrestricted | 4,828,283 | 857,589 | 5,685,872 | 4,603,985 |
| Temporarily restricted | 377,461 | 46,943 | 424,404 | 422,518 |
| Permanently restricted | 1,049,527 | 6,030 | 1,055,557 | 939,433 |
| Total net assets | 6,255,271 | 910,562 | 7,165,833 | 5,965,936 |
| Total liabilities and net assets | \$ 8,941,734 | 1,552,577 | 10,494,311 | 8,846,496 |

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2007 and 2006

(In thousands of dollars)

| | 2007 | | | 2006 |
|---|-------------------|-----------------------|---------------------|---------------------|
| | <u>University</u> | <u>Medical Center</u> | <u>Consolidated</u> | <u>Consolidated</u> |
| Changes in unrestricted net assets: | | | | |
| Operating: | | | | |
| Revenue: | | | | |
| Tuition and fees – gross | \$ 479,612 | — | 479,612 | 445,960 |
| Less: | | | | |
| Undergraduate student aid | (56,905) | — | (56,905) | (51,847) |
| Graduate student aid | (142,935) | — | (142,935) | (134,808) |
| Tuition and fees – net | <u>279,772</u> | <u>—</u> | <u>279,772</u> | <u>259,305</u> |
| Government grants and contracts | 327,415 | — | 327,415 | 317,773 |
| Private gifts, grants, and contracts | 118,866 | 946 | 119,812 | 106,505 |
| Endowment payout | 193,731 | 7,249 | 200,980 | 183,525 |
| Earnings on other investments | 10,615 | 17,516 | 28,131 | 21,797 |
| Patient care | 185,476 | 1,021,512 | 1,206,988 | 1,040,283 |
| Auxiliaries | 185,394 | — | 185,394 | 168,770 |
| Other income | 127,719 | 44,802 | 172,521 | 166,807 |
| Net assets released from restrictions | <u>102,916</u> | <u>—</u> | <u>102,916</u> | <u>44,923</u> |
| Total operating revenue | <u>1,531,904</u> | <u>1,092,025</u> | <u>2,623,929</u> | <u>2,309,688</u> |
| Expenses: | | | | |
| Compensation: | | | | |
| Academic salaries | 370,606 | — | 370,606 | 344,814 |
| Staff salaries | 356,157 | 360,851 | 717,008 | 697,635 |
| Benefits | <u>194,417</u> | <u>79,992</u> | <u>274,409</u> | <u>267,349</u> |
| Total compensation | <u>921,180</u> | <u>440,843</u> | <u>1,362,023</u> | <u>1,309,798</u> |
| Other operating expenses: | | | | |
| Utilities, alterations, and repairs | 45,156 | 25,602 | 70,758 | 65,605 |
| Depreciation | 91,518 | 48,835 | 140,353 | 131,192 |
| Interest | 44,654 | 15,465 | 60,119 | 48,348 |
| Supplies, services, and other | 363,343 | 426,304 | 789,647 | 683,259 |
| Insurance | <u>31,833</u> | <u>23,593</u> | <u>55,426</u> | <u>60,735</u> |
| Total other operating expenses | <u>576,504</u> | <u>539,799</u> | <u>1,116,303</u> | <u>989,139</u> |
| Total operating expenses | <u>1,497,684</u> | <u>980,642</u> | <u>2,478,326</u> | <u>2,298,937</u> |
| Excess of operating revenue over expenses | \$ <u>34,220</u> | <u>111,383</u> | <u>145,603</u> | <u>10,751</u> |

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2007 and 2006

(In thousands of dollars)

| | 2007 | | | 2006 |
|---|---------------------|-----------------------|---------------------|---------------------|
| | <u>University</u> | <u>Medical Center</u> | <u>Consolidated</u> | <u>Consolidated</u> |
| Changes in unrestricted net assets: | | | | |
| Nonoperating: | | | | |
| Investment gains | \$ 832,102 | 78,601 | 910,703 | 600,541 |
| Minimum pension liability adjustment | — | 2,210 | 2,210 | 78,039 |
| Other, net | 39,242 | 13,301 | 52,543 | 18,215 |
| Effect of a change in accounting for pension and other postretirement benefit plans | (117,255) | — | (117,255) | — |
| Cumulative effect of changes in accounting for: | | | | |
| Asset retirement obligations | — | — | — | (77,995) |
| Correction of prior year misstatements | 35,400 | 52,683 | 88,083 | — |
| Change in unrestricted net assets from nonoperating activities | <u>789,489</u> | <u>146,795</u> | <u>936,284</u> | <u>618,800</u> |
| Increase in unrestricted net assets | <u>823,709</u> | <u>258,178</u> | <u>1,081,887</u> | <u>629,551</u> |
| Changes in temporarily restricted net assets: | | | | |
| Private gifts | 144,254 | 5,188 | 149,442 | 138,713 |
| Endowment payout | 171 | — | 171 | 286 |
| Investment gains | 911 | — | 911 | 1,936 |
| Other, net | (16,952) | (28,770) | (45,722) | (38,431) |
| Net assets released from restrictions | <u>(102,916)</u> | <u>—</u> | <u>(102,916)</u> | <u>(44,923)</u> |
| Increase (decrease) in temporarily restricted net assets | <u>25,468</u> | <u>(23,582)</u> | <u>1,886</u> | <u>57,581</u> |
| Changes in permanently restricted net assets: | | | | |
| Private gifts | 88,710 | — | 88,710 | 42,212 |
| Endowment payout | 1,813 | — | 1,813 | 1,853 |
| Investment gains | 6,320 | — | 6,320 | 3,837 |
| Other, net | <u>19,067</u> | <u>214</u> | <u>19,281</u> | <u>25,482</u> |
| Increase in permanently restricted net assets | <u>115,910</u> | <u>214</u> | <u>116,124</u> | <u>73,384</u> |
| Increase in net assets | 965,087 | 234,810 | 1,199,897 | 760,516 |
| Net assets at beginning of year | <u>5,290,184</u> | <u>675,752</u> | <u>5,965,936</u> | <u>5,205,420</u> |
| Net assets at end of year | <u>\$ 6,255,271</u> | <u>910,562</u> | <u>7,165,833</u> | <u>5,965,936</u> |

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Cash Flows
Years ended June 30, 2007 and 2006
(In thousands of dollars)

| | 2007 | | | 2006 |
|--|-------------------|-----------------------|---------------------|---------------------|
| | <u>University</u> | <u>Medical Center</u> | <u>Consolidated</u> | <u>Consolidated</u> |
| Cash flows from operating activities: | | | | |
| Increase in net assets | \$ 965,087 | 234,810 | 1,199,897 | 760,516 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | | | |
| Depreciation | 91,518 | 48,835 | 140,353 | 131,192 |
| Loss on disposal of land, buildings, equipment, and books | 2,435 | 150 | 2,585 | 1,144 |
| Net gain on investments | (944,793) | (49,397) | (994,190) | (670,124) |
| Private gifts and grants restricted for long-term investment | (232,964) | (5,402) | (238,366) | (180,925) |
| Other nonoperating changes | 100,292 | (48,340) | 51,952 | 13,512 |
| Minimum pension liability adjustment | — | (2,210) | (2,210) | (78,039) |
| Effect of a change in accounting for pension and other postretirement benefit plans | 117,255 | — | 117,255 | — |
| Cumulative effect of changes in accounting for: | | | | |
| Asset retirement obligations | — | — | — | 77,995 |
| Correction of prior year misstatements | (35,400) | (52,683) | (88,083) | — |
| Changes in assets and liabilities: | | | | |
| Notes and accounts receivable | (15,933) | 15,754 | (179) | (246) |
| Prepaid expenses and other assets | (21,553) | (22,249) | (43,802) | 255 |
| Accounts payable and other liabilities | 68,356 | 34,999 | 103,355 | 46,648 |
| Self-insurance liability | 17,759 | (377) | 17,382 | 8,285 |
| Total adjustments | <u>(853,028)</u> | <u>(80,920)</u> | <u>(933,948)</u> | <u>(650,303)</u> |
| Net cash provided by operating activities | <u>112,059</u> | <u>153,890</u> | <u>265,949</u> | <u>110,213</u> |
| Cash flows from investing activities: | | | | |
| Purchase of investments | (1,821,638) | (109,642) | (1,931,280) | (767,639) |
| Proceeds from sale of investments | 1,541,423 | 75,142 | 1,616,565 | 768,869 |
| Acquisition of land, buildings, equipment, and books | (233,137) | (83,950) | (317,087) | (239,173) |
| Loans disbursed | (62,324) | — | (62,324) | (63,303) |
| Principal collected on loans | 57,455 | — | 57,455 | 85,754 |
| Net cash used in investing activities | <u>(518,221)</u> | <u>(118,450)</u> | <u>(636,671)</u> | <u>(215,492)</u> |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of notes and bonds payable | 1,011,437 | 41,000 | 1,052,437 | 301,448 |
| Principal payments on notes and bonds payable | (729,569) | (9,423) | (738,992) | (318,507) |
| Proceeds from private gifts and grants restricted for long-term investment | 224,586 | 14,118 | 238,704 | 151,003 |
| Other nonoperating changes | (100,292) | (14,805) | (115,097) | (54,887) |
| Net cash provided by financing activities | <u>406,162</u> | <u>30,890</u> | <u>437,052</u> | <u>79,057</u> |
| Increase in cash and cash equivalents | — | 66,330 | 66,330 | (26,222) |
| Cash and cash equivalents at: | | | | |
| Beginning of year | — | 21,726 | 21,726 | 47,948 |
| End of year | <u>\$ —</u> | <u>88,056</u> | <u>88,056</u> | <u>21,726</u> |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest | \$ 47,057 | 14,200 | 61,257 | 58,768 |

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

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

(b) Basis of Presentation

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

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

For reporting purposes, however, the University follows the reporting requirements of 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 investment return on endowment funds, actuarial adjustments to self-insurance liabilities, and certain types of philanthropic support. Such philanthropic support includes unrestricted gifts, including those designated by the Board to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as restricted gifts and grants for buildings and equipment that have been amortized over the useful life of the assets acquired or constructed.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

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

Net assets consisted of the following at June 30:

| <u>Detail of net assets</u> | <u>2007</u> | | | <u>Total</u> | <u>2006 Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|-----------------------|
| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | | |
| University: | | | | | |
| Operating | \$ (185,810) | 17,281 | — | (168,529) | 85,876 |
| Pledges | — | 147,375 | 45,552 | 192,927 | 184,549 |
| Student loans | — | — | 15,192 | 15,192 | 14,568 |
| Endowment | 4,854,169 | 25,865 | 953,892 | 5,833,926 | 4,662,286 |
| Annuity and life income | — | 18,918 | 34,891 | 53,809 | 44,220 |
| Net investment in physical properties | 159,924 | 168,022 | — | 327,946 | 298,685 |
| Subtotal | <u>4,828,283</u> | <u>377,461</u> | <u>1,049,527</u> | <u>6,255,271</u> | <u>5,290,184</u> |
| Medical Center: | | | | | |
| Operating | 509,463 | 28,753 | — | 538,216 | 338,096 |
| Pledges | — | 18,190 | 240 | 18,430 | 27,146 |
| Endowment | 204,290 | — | 5,790 | 210,080 | 177,628 |
| Net investment in physical properties | 143,836 | — | — | 143,836 | 132,882 |
| Subtotal | <u>857,589</u> | <u>46,943</u> | <u>6,030</u> | <u>910,562</u> | <u>675,752</u> |
| Total | <u>\$ 5,685,872</u> | <u>424,404</u> | <u>1,055,557</u> | <u>7,165,833</u> | <u>5,965,936</u> |

(c) **Operations**

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing unrestricted net assets except those items associated with long-term investment, actuarial adjustments to self-insurance liabilities, and other infrequent gains and losses.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

As discussed in note 11, based primarily on participation, the University and Medical Center share equally in contributions made to the defined benefit pension plan. For financial reporting purposes the Medical Center recognizes its share of annual contributions to the plan as expense. If the fiscal 2007 pension expense of \$32,788 was allocated based on plan participation, the University excess of operating revenue over expenses and increase in net assets in the consolidated statement of activities would increase by \$14,925 with a corresponding decrease in the Medical Center excess of operating revenue over expenses and increase in net assets.

As discussed in note 2, the Medical Center provides certain operating support to the University's Biological Sciences Division. Such support is included in other operating income of the University to the extent expended for noncapital purposes during the period, and amounted to \$15,000 in fiscal 2007 and \$17,512 in fiscal 2006.

(d) Tuition and Fees

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

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2007 and 2006 are \$45,746 and \$42,733, respectively, of private grant and contract receipts, which have not been expended.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

Private gifts, grants, and contracts operating revenue for fiscal years 2007 and 2006 consists of the following:

| | 2007 | | | 2006 Total |
|--|------------|-------------------|---------|---------------|
| | University | Medical Center | Total | |
| Private gifts: | | | | |
| Unrestricted as to use | \$ 17,725 | 946 | 18,671 | 15,995 |
| Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue | 44,135 | — | 44,135 | 35,634 |
| Private grants and contracts | 57,006 | — | 57,006 | 54,876 |
| Total | \$ 118,866 | 946 | 119,812 | 106,505 |

(f) 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 5.2% and 5.15% for the fiscal years ended June 30, 2007 and 2006, 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 2007 and 2006 consists of the following:

| | 2007 | | | 2006 Total |
|--|------------|-------------------|---------|---------------|
| | University | Medical Center | Total | |
| Interest, dividends, and rents | \$ 90,655 | 3,289 | 93,944 | 80,832 |
| Investment gains used to support the endowment payout formula | 105,060 | 3,960 | 109,020 | 104,832 |
| Total | \$ 195,715 | 7,249 | 202,964 | 185,664 |

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

Unrestricted operating endowment payout revenue for fiscal years 2007 and 2006 consists of the following:

| | 2007 | | | 2006 Total |
|---|------------|-------------------|---------|---------------|
| | University | Medical Center | Total | |
| Unrestricted payout | \$ 51,872 | 7,249 | 59,121 | 54,270 |
| Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue | 141,859 | — | 141,859 | 129,255 |
| Total | \$ 193,731 | 7,249 | 200,980 | 183,525 |

(g) 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.

(h) Cash Equivalents

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

(i) Investments

Investments are recorded in the consolidated financial statements at 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, private equity, and real asset investments is based on valuations provided by the external investment managers. 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

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

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.

(j) Land, Buildings, Equipment, and Books

Land, buildings, equipment, and books are generally stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

(k) Asset Retirement Obligation

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

(l) Correction of Prior Year Misstatements

In fiscal 2007, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. Although SAB 108 is directly applicable to public companies, the University and Medical Center elected to follow the prescribed guidance for current period recognition of prior year financial statement misstatements previously considered immaterial to the financial statements taken as a whole.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

Following the guidance of SAB 108, the University and Medical Center recognized the cumulative effect of the application of SAB 108 as a fiscal 2007 nonoperating increase in unrestricted net assets as follows:

| | 2007 | | | Fiscal years affected |
|---|------------|-------------------|--------|-----------------------------|
| | University | Medical Center | Total | |
| Increase in the value of investments related to more timely valuation of certain alternative investments | \$ 35,400 | 1,400 | 36,800 | 2006 |
| Decrease in accounts payable and accrued expenses related to third party settlements | — | 35,000 | 35,000 | 1990 – 2000 |
| Increase in prepaid expenses and other assets related to the valuation of a trust | — | 11,762 | 11,762 | 2004 – 2006 |
| Decrease in accounts payable and accrued expenses related to reversal of prior year program related liabilities | — | 3,299 | 3,299 | 1999 – 2006 |
| Increase in land, buildings, equipment, and books related to capitalization of prior year capital project costs | — | 1,222 | 1,222 | 2006 |
| | \$ 35,400 | 52,683 | 88,083 | |

(m) 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.

(n) 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, 2007 and 2006

(In thousands of dollars)

(o) ***Reclassifications***

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

(2) **The University of Chicago Medical Center**

(a) ***Organization***

The University of Chicago Medical Center, an Illinois not-for-profit corporation, operates the Bernard Mitchell Hospital, the Chicago Lying-In Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, and various other outpatient clinics and treatment areas including QV, Inc., an affiliated not-for-profit health care corporation operating clinics in the Chicago area. Prior to August 2006 the Medical Center was named the University of Chicago Hospitals. The University, as the sole corporate member of the Medical Center, elects the Medical Center's Board of Trustees and approves its By-Laws.

(b) ***Agreements with the University***

The relationship between the University and the Medical Center is defined in an Affiliation Agreement and an Operating Agreement along with an associated Lease Agreement. The Affiliation Agreement specifies University and Medical Center responsibilities for the provision of patient care, teaching, and research at the hospitals and clinics. The Operating Agreement provides for the management and operation by the Medical Center of the University's hospital and clinic facilities. The Lease Agreement provides a leasehold interest in the University health care facilities and certain land and parking structures.

(c) ***Basis of Presentation***

The Medical Center 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 Medical Center's financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for uncollectible Medical Center's patient accounts receivable of \$56,022 in fiscal year 2007 and \$44,236 in fiscal year 2006 has been reclassified as a reduction of patient care revenue and (2) investment gains of \$29,411 in fiscal year 2007 and \$37,074 in fiscal year 2006 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

The Medical Center has made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. During fiscal 2007 and fiscal 2006, the Medical Center transferred \$15,000 annually to the University in support of these programs.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(3) Investments

Fair values of investments at June 30, 2007 and 2006 are shown below:

| | 2007 | | | | 2006 Total |
|---|--|--------------------------|-----------------------|------------------|-----------------------|
| | University and Medical Center Endowment | Other investments | | Total | |
| | | University | Medical Center | | |
| Cash equivalents | \$ 86,479 | 4,378 | 1,776 | 92,633 | 19,131 |
| Domestic public equities | 643,551 | 60,464 | 297,861 | 1,001,876 | 923,962 |
| International public equities | 1,573,665 | 29,286 | 1,992 | 1,604,943 | 1,285,615 |
| Private equity | 777,833 | 4,081 | 17,289 | 799,203 | 609,242 |
| Real assets | 697,554 | 14,984 | 1,618 | 714,156 | 578,700 |
| Absolute return | 1,781,189 | 9,509 | — | 1,790,698 | 1,310,878 |
| High yield bonds | — | 460 | — | 460 | 441 |
| Fixed income | 454,038 | 89,473 | 175,279 | 718,790 | 771,635 |
| Funds held in trust (primarily cash equivalents and bonds) | 27,997 | 479,569 | 26,609 | 534,175 | 376,683 |
| Total | \$ 6,042,306 | 692,204 | 522,424 | 7,256,934 | 5,876,287 |

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2007, the University had unfunded commitments of \$1,757,678 which are likely to be called through 2012.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2007 and 2006:

| | 2007 | | | 2006 Consolidated |
|---|--------------|-------------------|--------------|----------------------|
| | University | Medical Center | Consolidated | |
| Investment return: | | | | |
| Endowment yield (interest, dividends, and rents) | \$ 90,655 | 3,289 | 93,944 | 80,832 |
| Realized gains on investments | 436,919 | 15,343 | 452,262 | 437,818 |
| Unrealized gains on investments | 502,885 | 19,317 | 522,202 | 254,886 |
| Total investment return | 1,030,459 | 37,949 | 1,068,408 | 773,536 |
| Endowment payout | (195,715) | (7,249) | (202,964) | (185,664) |
| Net investment return | 834,744 | 30,700 | 865,444 | 587,872 |
| Other changes in endowment investments: | | | | |
| Gifts and pledge payments received in cash | 140,983 | 352 | 141,335 | 64,426 |
| Transfers to create funds functioning as endowment | 156,641 | — | 156,641 | 71,133 |
| Other changes | 37,572 | 1,400 | 38,972 | 2,544 |
| Total other changes in endowment investments | 335,196 | 1,752 | 336,948 | 138,103 |
| Net change in endowment investments | 1,169,940 | 32,452 | 1,202,392 | 725,975 |
| Endowment investments at: | | | | |
| Beginning of year | 4,662,286 | 177,628 | 4,839,914 | 4,113,939 |
| End of year | \$ 5,832,226 | 210,080 | 6,042,306 | 4,839,914 |

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(4) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2007 and 2006 are shown below:

| | 2007 | | 2006 | |
|--|------------|----------------|------------|----------------|
| | University | Medical Center | University | Medical Center |
| Patients | \$ 79,090 | 123,317 | 106,275 | 145,036 |
| Students: | | | | |
| Loans | 111,675 | — | 106,815 | — |
| Tuition and fees | 2,332 | — | 2,924 | — |
| U.S. Government | 28,144 | — | 24,523 | — |
| All other | 79,130 | — | 63,781 | — |
| Subtotal | 300,371 | 123,317 | 304,318 | 145,036 |
| Less allowance for doubtful accounts (primarily patient receivables) | (69,844) | (29,160) | (94,593) | (35,125) |
| Total | \$ 230,527 | 94,157 | 209,725 | 109,911 |

(5) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2007 and 2006 are shown below:

| | 2007 | | 2006 | |
|-------------------------------|--------------|----------------|------------|----------------|
| | University | Medical Center | University | Medical Center |
| Land | \$ 51,400 | 33,093 | 41,117 | 33,093 |
| Buildings | 1,517,929 | 565,718 | 1,434,157 | 512,399 |
| Equipment | 313,572 | 345,667 | 291,932 | 317,205 |
| Books | 210,731 | — | 197,832 | — |
| Construction in-progress | 219,868 | 88,830 | 100,293 | 91,560 |
| Subtotal | 2,313,500 | 1,033,308 | 2,065,331 | 954,257 |
| Less accumulated depreciation | (848,339) | (499,858) | (764,769) | (456,913) |
| Total | \$ 1,465,161 | 533,450 | 1,300,562 | 497,344 |

THE UNIVERSITY OF CHICAGO
Notes to Consolidated Financial Statements
June 30, 2007 and 2006
(In thousands of dollars)

(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 2007 and 2006 are shown below:

| | <u>Fiscal year maturity</u> | <u>Interest rate</u> | <u>2007</u> | <u>2006</u> |
|---|---------------------------------|----------------------|---------------------|------------------|
| University: | | | | |
| Fixed rate: | | | | |
| Illinois Educational Facilities Authority (IEFA): | | | | |
| Series 1993 | 2014 | 5.9% – 6.0% | \$ 2,975 | 3,300 |
| Series 1998A | 2039 | 5.0% – 5.3% | 123,415 | 124,945 |
| Series 2001A | 2042 | 5.3% | 2,860 | 2,860 |
| Series 2003A | 2034 | 4.0% – 5.3% | 186,775 | 191,275 |
| Illinois Finance Authority (IFA): | | | | |
| Series 2004A | 2035 | 5.0% | 100,000 | 100,000 |
| Series 2004C | 2040 | 3.8 | 78,574 | 78,677 |
| Series 2007 | 2047 | 5.0 | 244,030 | — |
| Illinois Health Facilities Authority (IHFA) – Series 1985 | | | | |
| Unamortized premium | 2021 | 5.5 | 61,500 | 61,615 |
| | | | 7,786 | 2,818 |
| Total fixed rate | | | <u>807,915</u> | <u>565,490</u> |
| Variable rate: | | | | |
| Illinois Student Assistance Commission (ISAC) | 2006 | 5.0% | 69,095 | 66,504 |
| IEFA: | | | | |
| Series 1985 NORC | 2007 | — | — | 10 |
| Pooled financing program | 2011 | 3.7 | 2,268 | 7,543 |
| Series 1998B | 2026 | 4.1 | 90,090 | 90,090 |
| Series 2001B-1 | 2037 | 3.5 | 60,000 | 60,000 |
| Series 2001B-2 | 2037 | 4.0 | 40,000 | 40,000 |
| Series 2001B-3 | 2037 | 3.7 | 72,265 | 72,265 |
| Series 2003B | 2034 | 3.7 | 48,113 | 49,076 |
| IFA – Series 2004B | 2035 | 3.7 | 100,000 | 100,000 |
| Bank line of credit (\$100,000 available) | 2007 | 5.5 | 96,100 | 53,000 |
| Total variable rate | | | <u>577,931</u> | <u>538,488</u> |
| Total University | | | <u>1,385,846</u> | <u>1,103,978</u> |
| Medical Center: | | | | |
| Fixed rate: | | | | |
| IHFA: | | | | |
| Series 2001 Serial bond | 2024 | 5.1% | 34,440 | 35,605 |
| 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% | 50,515 | 55,840 |
| Unamortized premium | | | 2,211 | 2,734 |
| Total fixed rate | | | <u>139,331</u> | <u>146,344</u> |
| Variable rate: | | | | |
| IHFA: | | | | |
| Series 1994C | 2027 | 3.9% | 55,400 | 55,400 |
| Series 1998 | 2027 | 4.0 | 112,000 | 112,900 |
| IEFA pooled financing program | 2038 | 3.7 | 97,004 | 56,866 |
| Bank line of credit (\$15,000 available) | | | — | — |
| Total variable rate | | | <u>264,404</u> | <u>225,166</u> |
| Total Medical Center | | | <u>403,735</u> | <u>371,510</u> |
| Total notes and bonds payable | | | <u>\$ 1,789,581</u> | <u>1,475,488</u> |

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

During fiscal 2007, the University issued \$244,030 in fixed rate revenue bonds through the IFA and the Medical Center issued \$41,000 in variable rate bonds through the IEFA pooled financing program. Proceeds from these bonds are being used to finance the construction and renovation of certain educational and hospital facilities.

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 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 the consolidated balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counter party. At June 30, 2007 and 2006, the fair value of the interest rate swap agreement was an accrued asset of \$966 and \$1,315, respectively. 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, 2007 and 2006, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$77,535 and \$79,700, respectively.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2008 through 2012 are approximately \$11,507; \$11,434; \$13,028; \$15,126; and \$14,627 respectively.

Principal payments required in each of the five years ending June 30, 2008 through 2012 for the Medical Center's notes and bonds are approximately \$8,535; \$8,845; \$8,615; \$8,965; and \$9,420 respectively.

Included in the University's and Medical Center's notes and bonds payable are \$577,931 and \$264,404, respectively, of variable rate notes and bonds maturing through fiscal year 2038. In the event the University's and Medical Center's 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, 2007 and 2006, 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, 2007. In addition, at June 30, 2007, the University had approximately \$7,934 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 Medical Center's IHFA bond series is collateralized and subject to certain restrictions. The Medical Center's Series 1994, 1998, 2001, and 2003 bonds are guaranteed by a municipal bond insurance policy.

Payment on the University and Medical Center's IEFA Pooled Financing Program bonds is guaranteed by a bank letter of credit.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(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, 2007 and 2006, investment securities with an aggregate market value of \$532,412 and \$628,242, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of \$494,429 and \$539,719 and noncash collateral of \$49,576 and \$98,993, at June 30, 2007 and 2006, respectively. Cash collateral is reported as both an asset and liability of the University.

(9) Pledges

Pledges receivable at June 30, 2007 and 2006 are shown below:

| | 2007 | | 2006 | |
|---|------------|----------------|------------|----------------|
| | University | Medical Center | University | Medical Center |
| Unconditional promises expected to be collected in: | | | | |
| Less than one year | \$ 80,546 | 3,950 | 86,060 | 11,438 |
| One year to five years | 137,012 | 18,022 | 138,951 | 20,085 |
| More than five years | 45,109 | — | 17,034 | — |
| | 262,667 | 21,972 | 242,045 | 31,523 |
| Less unamortized discount and allowance for uncollectible pledges | (69,740) | (3,542) | (57,496) | (4,377) |
| Total | \$ 192,927 | 18,430 | 184,549 | 27,146 |

In addition, at June 30 2007, the University has received promises to give \$51,275 which are conditional upon the raising of matching gifts from other sources. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(10) Self-insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the year ended June 30, 2007 was \$10,000 per claim and unlimited in annual aggregate. Claims in excess of \$10,000 are subject to an additional self-insurance retention limited to \$15,000 per claim and \$15,000 in annual aggregate. The Medical Center is included under this insurance program and is charged for their portion of self-insurance costs. The self-insurance retention for the year ended June 30, 2006 was \$15,000 per claim and unlimited in annual aggregate with claims in excess of \$15,000 subject to an

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

additional self-insurance retention limited to \$10,000 per claim and \$10,000 in annual aggregate. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

Under the medical malpractice self-insurance program, the University 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 \$45,500 higher than the amount recorded in the consolidated financial statements at June 30, 2007. The interest rate assumed in determining the present value was 6.3%.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2007 and 2006 is presented below:

| | 2007 | | 2006 | |
|-----------------------|------------|----------------|------------|----------------|
| | University | Medical Center | University | Medical Center |
| Medical malpractice | \$ 181,550 | — | 162,547 | — |
| Workers' compensation | 3,705 | 6,557 | 3,624 | 6,934 |
| Other | 3,104 | — | 4,429 | — |
| Total | \$ 188,359 | 6,557 | 170,600 | 6,934 |

(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 Medical Center employees participate in the University's pension plan for nonacademic employees. The University and Medical Center make annual contributions to the defined benefit pension plan at a rate necessary to maintain plan funding on an actuarially recommended basis. Based primarily on participation, the University and Medical Center share equally in contributions made to the defined benefit pension plan.

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

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

In fiscal 2007, the University adopted Financial Accounting Standards Board Statement No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 requires an employer to recognize the funded status of defined benefit pension and other postretirement benefit plans in the statement of financial position at year-end and to recognize changes in the funded status as a change in unrestricted net assets in the year in which the changes occur.

The incremental effect for the adoption of SFAS 158 was an increase in the accrued pension and other postretirement benefit obligation of \$117,255 with a corresponding Nonoperating decrease in unrestricted net assets. The accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost as follows: unrecognized actuarial loss of \$122,150, unrecognized transition obligation of \$7,577, and unrecognized prior service credit of \$12,472. These amounts will be subsequently recognized in future years as components of net periodic pension cost.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

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

| | <u>Defined benefit pension plan</u> | | <u>Other postretirement benefit plans</u> | |
|---|---|------------------|---|------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | \$ 403,771 | 455,920 | 129,844 | 142,043 |
| Service cost | 24,513 | 31,176 | 5,663 | 7,157 |
| Interest cost | 25,227 | 22,369 | 8,028 | 6,950 |
| Benefits paid | (27,944) | (25,104) | (8,850) | (6,020) |
| Actuarial (gain) loss, net | <u>(2,359)</u> | <u>(80,590)</u> | <u>8,515</u> | <u>(20,286)</u> |
| Benefit obligation at end of year | <u>423,208</u> | <u>403,771</u> | <u>143,200</u> | <u>129,844</u> |
| Change in fair value of plan assets: | | | | |
| Fair value of plan assets at beginning of year | 324,998 | 304,642 | 27,920 | 30,961 |
| Actual return on plan assets | 63,100 | 35,460 | 3,664 | 1,303 |
| Employer contributions | 2,939 | 10,000 | 3,634 | 1,676 |
| Benefits paid | <u>(27,944)</u> | <u>(25,104)</u> | <u>(8,850)</u> | <u>(6,020)</u> |
| Fair value of plan assets at end of year | <u>363,093</u> | <u>324,998</u> | <u>26,368</u> | <u>27,920</u> |
| Funded status | <u>\$ (60,115)</u> | <u>(78,773)</u> | <u>(116,832)</u> | <u>(101,924)</u> |
| Unrecognized actuarial loss | | 84,673 | | 82,778 |
| Unrecognized transition obligation | | — | | 8,946 |
| Unrecognized prior service cost (benefit) | | <u>8,584</u> | | <u>(22,316)</u> |
| Net amount recognized | | <u>\$ 14,484</u> | | <u>(32,516)</u> |
| Amount recognized in consolidated financial statements: | | | | |
| Asset | \$ — | 14,484 | — | — |
| Liability | <u>(60,115)</u> | <u>—</u> | <u>(116,832)</u> | <u>(32,516)</u> |
| Amount recognized | <u>\$ (60,115)</u> | <u>14,484</u> | <u>(116,832)</u> | <u>(32,516)</u> |

The accumulated benefit obligation (ABO) for the defined benefit pension plan was \$339,308 and \$324,333 at June 30, 2007 and 2006, respectively.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

At June 30, 2006, plan assets exceeded the ABO eliminating the need to maintain a minimum pension liability. This situation required the reversal of the \$70,432 minimum pension liability adjustment recorded in fiscal 2005, which is reported as a nonoperating change in unrestricted net assets in the consolidated statements of activities in fiscal 2006.

(a) Components of Net Periodic Benefit Cost

| | Defined benefit pension plan | | Other postretirement benefit plans | |
|--|---|---------------|---|---------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Service cost | \$ 24,513 | 31,176 | 5,663 | 7,157 |
| Interest cost | 25,227 | 22,369 | 8,028 | 6,950 |
| Expected return on plan assets | (23,628) | (23,572) | (1,691) | (2,012) |
| Amortization of prior service cost (benefit) | 1,038 | 1,038 | (2,298) | (2,298) |
| Amortization of transition obligation | — | — | 1,370 | 1,370 |
| Amortization of actuarial loss | 5,638 | 10,484 | 4,373 | 5,317 |
| | <u>5,638</u> | <u>10,484</u> | <u>4,373</u> | <u>5,317</u> |
| Net periodic benefit cost | \$ 32,788 | 41,495 | 15,445 | 16,484 |
| Amounts included in the consolidated statements of activities: | | | | |
| University | \$ 31,319 | 36,495 | 15,445 | 16,484 |
| Medical Center | 1,469 | 5,000 | — | — |
| Total | <u>\$ 32,788</u> | <u>41,495</u> | <u>15,445</u> | <u>16,484</u> |

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$33,289 in fiscal 2007 and \$31,088 in fiscal 2006 for the University and \$6,300 in fiscal 2007 and \$6,100 in fiscal 2006 for the Medical Center.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(b) Actuarial Assumptions

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

| | Defined benefit pension plan | | Other postretirement benefit plans | |
|--------------------------------|---------------------------------|------|---------------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Discount rate | 6.4% | 6.4% | 6.4% | 6.4% |
| Expected return on plan assets | 8.0 | 8.0 | 6.5 | 6.5 |
| Rate of compensation increase | 4.2 | 4.2 | 4.2 | 4.2 |
| Health care cost trend rates: | | | | |
| Next two fiscal years | — | — | 8.0% – 9.0% | 9.0% – 10.0% |
| Next seven fiscal years | — | — | 5.0% – 7.0% | 5.0% – 8.0% |
| Thereafter | — | — | 5.0% | 5.0% |

The expected return on plan assets assumptions for both the defined benefit pension plan and the other postretirement benefit plans 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 ended June 30:

| | 2007 | 2006 |
|---|----------|----------|
| Effect on total service cost and interest cost: | | |
| One-percentage point increase | \$ 2,110 | 2,330 |
| One-percentage point decrease | (1,648) | (1,749) |
| Effect on year-end postretirement benefit obligation: | | |
| One-percentage point increase | 19,280 | 16,397 |
| One-percentage point decrease | (15,568) | (13,281) |

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(c) **Plan Assets**

Weighted average asset allocations by asset category are as follows:

| | Defined benefit pension plan | | Other postretirement benefit plans | |
|-------------------------------|---|-------------|---|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Domestic public equities | 65% | 66% | 64% | 53% |
| International public equities | 21 | 20 | — | — |
| Fixed income | 14 | 14 | 36 | 47 |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

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 are meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments. Plan assets for the other postretirement benefit plans are managed by the University and 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.

(d) **Contributions**

The University expects to make a \$1,734 contribution to its postretirement health care plan and, along with the Medical Center, expects to make a \$22,657 contribution to the defined benefit pension plan in fiscal 2008.

(e) **Estimated Future Benefits Payments**

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

| Fiscal year | Defined benefit pension plan | Other postretirement benefit plans |
|--------------------|---|---|
| 2008 | \$ 19,819 | 5,961 |
| 2009 | 19,657 | 5,758 |
| 2010 | 20,873 | 6,571 |
| 2011 | 22,032 | 8,113 |
| 2012 | 23,790 | 7,670 |
| 2013 – 2017 | 147,021 | 45,215 |

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(f) 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 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, the impact of which is to reduce the benefit obligation by \$34,730 and \$37,737 at June 30, 2007 and 2006, respectively.

(g) Curtailed Pension Plan

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2007 and 2006, the ABO 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 \$2,210 and \$7,607 at June 30, 2007 and 2006, respectively.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(12) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2007 and 2006 are shown below:

| | 2007 | 2006 |
|---|--------------|-------------|
| University: | | |
| Academic and research: | | |
| Instruction | \$ 660,696 | 610,078 |
| Research | 235,682 | 217,316 |
| Auxiliary enterprises | 122,352 | 110,854 |
| Library | 17,685 | 17,761 |
| Student services | 39,227 | 39,046 |
| Operation and maintenance of physical plant | 95,745 | 94,117 |
| Depreciation | 81,632 | 78,446 |
| Interest on notes and bonds | 40,516 | 32,793 |
| Total academic and research | 1,293,535 | 1,200,411 |
| Administration: | | |
| Institutional support | 95,531 | 106,343 |
| Informational services | 53,566 | 50,220 |
| Development | 36,857 | 33,469 |
| Operation and maintenance of physical plant | 4,170 | 4,168 |
| Depreciation | 9,887 | 6,099 |
| Interest on notes and bonds | 4,138 | 1,561 |
| Total administration | 204,149 | 201,860 |
| Total University | 1,497,684 | 1,402,271 |
| Medical center: | | |
| Health care service | 879,989 | 806,540 |
| General and administrative | 100,653 | 90,126 |
| | 980,642 | 896,666 |
| Total | \$ 2,478,326 | 2,298,937 |

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, 2007 and 2006

(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, 2006 and 2005 was \$96,890 and \$97,375, respectively. Unrestricted net assets at December 31, 2006 and 2005 were \$15,979 and \$1,307,975 respectively. In addition, the University has guaranteed \$1,078 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, through its affiliate UChicago Argonne, LLC, operates Argonne National Laboratory (ANL) under a contract with the U.S. Department of Energy (DOE). This contract provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The University is the sole member of UChicago Argonne, LLC; however, the performance fee is shared with two subcontractors that assist UChicago Argonne, LLC with the management and operation of ANL.

Beginning in fiscal 2007, the University, as a member of Fermi Research Alliance, LLC (FRA), also operates Fermi National Accelerator Laboratory (Fermilab) on behalf of DOE. The Fermilab contract between DOE and FRA provides for the payment of a fixed management allowance and an additional performance fee. The University shares the performance fee with Universities Research Association, the other member of FRA, and with a subcontractor that assists FRA with the management and operation of Fermilab.

The expenditures under the respective contracts and the related reimbursements of \$490,327 for ANL and \$167,543 for Fermilab in fiscal 2007, and \$482,220 for ANL in fiscal 2006, are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab 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
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|--|---------------------------|---------------|---------------------|--------------------|
| Student Financial Assistance Cluster: | | | | |
| Department of Education: | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | \$ 891,917 | — | 891,917 |
| Federal Family Education Loans | 84.032 | 91,341,247 | — | 91,341,247 |
| Federal Work-Study Program | 84.033 | 2,647,699 | — | 2,647,699 |
| Federal Perkins Loan Program Federal Capital Contributions | 84.038 | 8,642,944 | — | 8,642,944 |
| Federal Pell Grant Program | 84.063 | 1,453,315 | — | 1,453,315 |
| Academic Competitiveness Grants | 84.375 | 165,167 | — | 165,167 |
| National Science and Mathematics Access to Retain Talent Grants | 84.376 | 124,003 | — | 124,003 |
| Department of Education Total | | 105,266,292 | — | 105,266,292 |
| Student Financial Assistance Cluster Total | | 105,266,292 | — | 105,266,292 |
| Research and Development Cluster: | | | | |
| Department of Agriculture: | | | | |
| Grants for Agricultural Research Competitive Research Grants | 10.206 | 466,045 | — | 466,045 |
| Kansas State University | | — | 15,772 | 15,772 |
| University of Washington | | — | 11,466 | 11,466 |
| Agricultural and Rural Economic Research | 10.250 | 224,785 | — | 224,785 |
| University of Wisconsin | | — | 7,991 | 7,991 |
| Department of Agriculture Total | | 690,830 | 35,229 | 726,059 |
| Department of Defense: | | | | |
| Basic and Applied Scientific Research | 12.300 | 1,470,322 | — | 1,470,322 |
| Military Medical Research and Development | 12.420 | 900,708 | — | 900,708 |
| Duke University | | — | 3,355 | 3,355 |
| Oregon Health and Science University | | — | 26,960 | 26,960 |
| University of Alabama at Birmingham | | — | 7,096 | 7,096 |
| University of Southern California | | — | 532,443 | 532,443 |
| Basic Scientific Research | 12.431 | 1,173,402 | — | 1,173,402 |
| Basic, Applied, and Advanced Research in Science and Engineering | 12.630 | 404,387 | — | 404,387 |
| Air Force Defense Research Sciences Program | 12.800 | 221,109 | — | 221,109 |
| Mathematical Sciences Grants Program | 12.901 | 29,257 | — | 29,257 |
| Research and Technology Development | 12.910 | 195,292 | — | 195,292 |
| University of Illinois at Champaign | | — | 49,628 | 49,628 |
| Department of Defense: | | | | |
| Argonne National Laboratory | 12.RD,00023-0008A | — | 336,770 | 336,770 |
| Henry M. Jackson Foundation | 12.RD,111712 | — | (1,529) | (1,529) |
| | 12.RD,DAMD17-03-1-00200 | 7,080 | — | 7,080 |
| Wright State University | 12.RD,MDA904-03-C-1788 | — | 4,439 | 4,439 |
| Henry M. Jackson Foundation | 12.RD,N66001-03-D-2501 | — | 516,975 | 516,975 |
| | 12.RD,N66002-04-D-2506(1) | — | 194,780 | 194,780 |
| | 12.RD, W81XWH-04-1-0333 | 22,077 | — | 22,077 |
| Evanston Northwestern Healthcare Research | 12.RD,W81XWH-05-1-0467 | — | 37,858 | 37,858 |
| | 12.RD, W81XWH-07-1-0203 | 110,105 | — | 110,105 |
| The Institute For Quality Management | 12.RD,W9124Q-04-F-2159 | — | 199,812 | 199,812 |
| Henry M. Jackson Foundation | 12.UNK,153513 | — | 43,250 | 43,250 |
| University of Southern California | 12.UNK,FA8750-06-C-0210 | — | 32,620 | 32,620 |
| Department of Defense Total | | 4,533,739 | 1,984,457 | 6,518,196 |
| Department of Education: | | | | |
| National Institute on Disability and Rehabilitation Research | 84.133 | — | 16,518 | 16,518 |
| Graduate Assistance in Areas of National Need | 84.200 | 893,416 | — | 893,416 |
| Education Research, Development, and Dissemination | 84.305 | 948,622 | — | 948,622 |
| Mathematics and Science Partnerships | 84.366 | 83,398 | — | 83,398 |
| Department of Education | 84.902 | 25,931 | — | 25,931 |
| Department of Education Total | | 1,951,367 | 16,518 | 1,967,885 |
| Department of Energy: | | | | |
| Department of Energy | | | | |
| Argonne National Laboratory | 81.019 | — | 171,905 | 171,905 |
| Office of Science Financial Assistance Program | 81.049 | 3,023,585 | — | 3,023,585 |
| Argonne National Laboratory | | — | 156,735 | 156,735 |
| Brookhaven National Laboratory | | — | 141,927 | 141,927 |
| Carnegie Institution of Washington | | — | 120,662 | 120,662 |
| Fermi National Accelerator Laboratory | | — | 50,000 | 50,000 |
| Fivesight Technologies, Inc. | | — | 144,977 | 144,977 |
| Krell Institute | | — | 604 | 604 |
| Smithsonian Institution | | — | 201 | 201 |
| University of Arkansas | | — | 8,664 | 8,664 |
| Defense Nuclear Nonproliferation Research | 81.113 | 16,204 | — | 16,204 |
| State Energy Program Special Projects | | | | |
| Argonne National Laboratory | 81.119 | — | 105,895 | 105,895 |
| Fermi National Accelerator Laboratory | | — | 14,221 | 14,221 |
| University of Wisconsin | | — | 66,005 | 66,005 |

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|--|-------------------------|---------------|---------------------|--------------------|
| Department of Energy: | | | | |
| Argonne National Laboratory | 81.149 | \$ — | 85,991 | 85,991 |
| Argonne National Laboratory | 81.RD.11-00322 | — | 32,512 | 32,512 |
| Battelle Memorial Institute | 81.RD.4000005731 | — | 25,235 | 25,235 |
| Argonne National Laboratory | 81.RD.5J-00023-0004A | — | 16,957 | 16,957 |
| Argonne National Laboratory | 81.RD.5J-00023-0025A | — | 78,469 | 78,469 |
| Argonne National Laboratory | 81.RD.5J-00023-0029A | — | 19,944 | 19,944 |
| Lawrence-Livermore | 81.RD.B523820 | — | 4,281,818 | 4,281,818 |
| | 81.RD.DE-FG02-04ER63786 | 217,911 | — | 217,911 |
| | 81.RD.DE-FG02-05ER64086 | 180,751 | — | 180,751 |
| Department of Energy Total | | 3,438,451 | 5,522,722 | 8,961,173 |
| Department of Health and Human Services: | | | | |
| Innovations in Applied Public Health Research | 93.061 | 977,490 | — | 977,490 |
| Maternal and Child Health Federal Consolidated Programs – Northwestern University | 93.110 | — | 25,414 | 25,414 |
| Environmental Health | 93.113 | 20,588 | — | 20,588 |
| Department of Health and Human Services | 93.115 | — | — | — |
| Rush-Presbyterian-St. Luke's Medical Center | | — | 24,044 | 24,044 |
| Oral Diseases and Disorders Research | 93.121 | 979,323 | — | 979,323 |
| Grants to Increase Organ Donations | 93.134 | — | — | — |
| National Kidney Foundation of Illinois | | — | 43,179 | 43,179 |
| Injury Prevention and Control Research and State and Community Based Programs | 93.136 | 101,425 | — | 101,425 |
| Human Genome Research | 93.172 | 2,184,376 | — | 2,184,376 |
| Pennsylvania State University | | — | 34,375 | 34,375 |
| Stanford University | | — | 96,647 | 96,647 |
| Research Related to Deafness and Communication Disorders | 93.173 | 2,850,125 | — | 2,850,125 |
| University of Colorado | | — | 47,046 | 47,046 |
| Research and Training in Complementary and Alternative Medicine | 93.213 | 324,419 | — | 324,419 |
| National Research Service Awards Health Services | | — | — | — |
| Research Training | 93.225 | 283,514 | — | 283,514 |
| Research on Healthcare Costs, Quality, and Outcomes | 93.226 | 664,791 | — | 664,791 |
| University of Pennsylvania | | — | 24,507 | 24,507 |
| National Center on Sleep Disorders Research | 93.233 | 639,078 | — | 639,078 |
| Free University of Brussels | | — | (17,333) | (17,333) |
| Northwestern University | | — | 84,980 | 84,980 |
| University of Pennsylvania | | — | 6,678 | 6,678 |
| Mental Health Research Grants | 93.242 | 6,792,082 | — | 6,792,082 |
| Columbia University | | — | 109,617 | 109,617 |
| Johns Hopkins University | | — | 12,053 | 12,053 |
| Neuropsychiatric Research Institute | | — | 161,794 | 161,794 |
| Oregon Health and Science University | | — | 45,636 | 45,636 |
| University of California Los Angeles | | — | 132,676 | 132,676 |
| University of Florida | | — | 225,818 | 225,818 |
| University of Illinois at Champaign | | — | 40,162 | 40,162 |
| University of Iowa | | — | 13,191 | 13,191 |
| University of Pittsburgh | | — | 37,667 | 37,667 |
| Alcohol Research Programs | 93.273 | 361,580 | — | 361,580 |
| Department of Health and Human Services | 93.278 | 508,586 | — | 508,586 |
| Drug Abuse and Addiction Research Programs | 93.279 | 4,209,311 | — | 4,209,311 |
| Rosalind Franklin University of Medicine | | — | 22,430 | 22,430 |
| State University of New York | | — | 4,571 | 4,571 |
| University of Illinois at Chicago | | — | 81,325 | 81,325 |
| Mental Health Research Career/Scientist Development Awards | 93.281 | 1,371,043 | — | 1,371,043 |
| Mental Health National Research Service Awards for Research Training | 93.282 | 626,306 | — | 626,306 |
| Centers for Disease Control and Prevention | | — | — | — |
| Investigations and Technical Assistance | 93.283 | 390,548 | — | 390,548 |
| Association of American Medical Colleges | | — | 139,087 | 139,087 |
| Medical University of Ohio | | — | 621 | 621 |
| University of Illinois at Chicago | | — | 18,872 | 18,872 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | 4,120,723 | — | 4,120,723 |
| University of Illinois at Chicago | | — | 3,414 | 3,414 |
| University of Iowa | | — | 124,918 | 124,918 |
| University of Minnesota | | — | (18,434) | (18,434) |
| Department of Health and Human Services | 93.333 | (34,323) | — | (34,323) |
| NIH Biomedical Technology | 93.371 | 125,362 | — | 125,362 |
| National Center for Research Resources | 93.389 | 5,005,902 | — | 5,005,902 |
| University of Texas | | — | 12,269 | 12,269 |

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|--|--------------|---------------|---------------------|--------------------|
| Academic Research Enhancement Award | 93.390 | \$ 680,121 | — | 680,121 |
| Columbia University | | — | 338,080 | 338,080 |
| Cancer Cause and Prevention Research | 93.393 | 5,511,576 | — | 5,511,576 |
| Aids Research Alliance Chicago | | — | 11,711 | 11,711 |
| Princeton University | | — | 5,190 | 5,190 |
| Southwest Oncology Group | | — | 28,973 | 28,973 |
| Translational Genomics Research Institute | | — | 39,660 | 39,660 |
| University of Alabama at Birmingham | | — | 16,837 | 16,837 |
| University of Hawaii | | — | 20,646 | 20,646 |
| University of Illinois at Chicago | | — | 31,050 | 31,050 |
| University of Pennsylvania | | — | 338,546 | 338,546 |
| Cancer Detection and Diagnosis Research | 93.394 | 3,206,926 | — | 3,206,926 |
| American College of Radiology | | — | 42,849 | 42,849 |
| SAIC-Frederick, Inc. | | — | 15,623 | 15,623 |
| Cancer Treatment Research | 93.395 | 16,412,145 | — | 16,412,145 |
| American College of Radiology | | — | 13,809 | 13,809 |
| Duke University | | — | 47,280 | 47,280 |
| Emmes Corporation | | — | 592 | 592 |
| Gynecologic Oncology Group | | — | 67,337 | 67,337 |
| Medical University of South Carolina | | — | 10,035 | 10,035 |
| National Childhood Cancer Foundation | | — | 28,052 | 28,052 |
| SAIC-Frederick, Inc. | | — | 11,785 | 11,785 |
| University of Alabama at Birmingham | | — | 303,773 | 303,773 |
| University of California San Francisco | | — | (8,643) | (8,643) |
| University of Illinois at Chicago | | — | 28,511 | 28,511 |
| University of Pittsburgh | | — | 33,367 | 33,367 |
| University of Southern California | | — | 9,667 | 9,667 |
| Washington University | | — | 9,625 | 9,625 |
| Cancer Biology Research | 93.396 | 7,319,726 | — | 7,319,726 |
| Loyola University – Illinois | | — | 241,920 | 241,920 |
| University of California San Francisco | | — | 99,446 | 99,446 |
| Cancer Centers Support Grants | 93.397 | 5,795,578 | — | 5,795,578 |
| Northwestern University | | — | 40,108 | 40,108 |
| University of Alabama at Birmingham | | — | 241,709 | 241,709 |
| Cancer Research Manpower | 93.398 | 1,523,526 | — | 1,523,526 |
| American College of Radiology | | — | 6,246 | 6,246 |
| Cancer Control | 93.399 | 935,899 | — | 935,899 |
| Georgetown University | | — | 50,000 | 50,000 |
| Johns Hopkins University | | — | 3,316 | 3,316 |
| National Surgical Adjuvant Breast And Bowel Project | | — | 195 | 195 |
| Northwestern University | | — | 867 | 867 |
| Abandoned Infants | 93.551 | 249,910 | — | 249,910 |
| Social Services Research and Demonstration | 93.647 | 88,777 | — | 88,777 |
| Child Abuse and Neglect Discretionary Activities | 93.670 | — | — | — |
| City of New York | | — | 214,508 | 214,508 |
| Department of Health and Human Services | 93.821 | 220,274 | — | 220,274 |
| Heart and Vascular Diseases Research | 93.837 | 6,349,200 | — | 6,349,200 |
| AJ Medical Devices, Inc. | | — | (4,117) | (4,117) |
| Northwestern University | | — | 670 | 670 |
| University of Alabama at Birmingham | | — | 442 | 442 |
| University of Illinois at Chicago | | — | 16,095 | 16,095 |
| University of Pennsylvania | | — | 19,775 | 19,775 |
| University of Pittsburgh | | — | 24,084 | 24,084 |
| University of Utah | | — | 27,976 | 27,976 |
| University of Wisconsin | | — | 25,452 | 25,452 |
| Virginia Commonwealth University | | — | 10,005 | 10,005 |
| Wake Forest University | | — | 8,843 | 8,843 |
| Lung Diseases Research | 93.838 | 7,249,255 | — | 7,249,255 |
| Johns Hopkins University | | — | 525,014 | 525,014 |
| Northwestern University | | — | 2,880 | 2,880 |
| University of Wisconsin | | — | 446,427 | 446,427 |
| Blood Diseases and Resources Research | 93.839 | 373,875 | — | 373,875 |
| Albert Einstein College of Medicine | | — | 243,877 | 243,877 |
| Howard University | | — | 210,854 | 210,854 |
| University of Illinois at Chicago | | — | (2,491) | (2,491) |
| University of Miami | | — | (8,331) | (8,331) |
| Arthritis, Musculoskeletal, and Skin Diseases Research | 93.846 | 977,815 | — | 977,815 |
| University of Rochester | | — | 6,744 | 6,744 |
| Diabetes, Endocrinology, and Metabolism Research | 93.847 | 10,189,845 | — | 10,189,845 |
| Chemical Diversity Labs | | — | 44,087 | 44,087 |
| Enteratech, Inc | | — | 74,524 | 74,524 |
| Northwestern University | | — | 23,328 | 23,328 |
| University of California San Francisco | | — | (24,424) | (24,424) |
| Washington University | | — | 49,263 | 49,263 |

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|--|-----------------|---------------|---------------------|--------------------|
| Digestive Diseases and Nutrition Research | 93.848 | \$ 6,046,845 | — | 6,046,845 |
| Argonne National Laboratory | | — | 312,452 | 312,452 |
| Children's Hospital, Boston | | — | 232 | 232 |
| University of Pennsylvania | | — | 52,495 | 52,495 |
| Kidney Diseases, Urology, and Hematology Research | 93.849 | 3,246,190 | — | 3,246,190 |
| University of Alabama at Birmingham | | — | 2,310 | 2,310 |
| University of Michigan | | — | (14,508) | (14,508) |
| Wake Forest University | | — | 39,074 | 39,074 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 8,309,965 | — | 8,309,965 |
| Beth Israel Deaconess Medical Center, Inc. | | — | 42,769 | 42,769 |
| Brigham and Women's Hospital | | — | 53,771 | 53,771 |
| Children's Hospital, Boston | | — | 86,454 | 86,454 |
| Columbia University | | — | 4,948 | 4,948 |
| Illinois Institute of Technology | | — | 36,386 | 36,386 |
| Massachusetts General Hospital | | — | 164 | 164 |
| Mayo Foundation | | — | 1,825 | 1,825 |
| Northern California Inst for Research and Education | | — | 27,902 | 27,902 |
| Northwestern University | | — | 162,705 | 162,705 |
| The Children'S Hospital of Philadelphia | | — | 153,023 | 153,023 |
| University of California San Diego | | — | 15,285 | 15,285 |
| University of Minnesota | | — | 16,948 | 16,948 |
| University of Wisconsin | | — | 4,982 | 4,982 |
| Allergy, Immunology, and Transplantation Research | 93.855 | 16,004,366 | — | 16,004,366 |
| University of California San Francisco | | — | (8,627) | (8,627) |
| University of Massachusetts | | — | 75,084 | 75,084 |
| University of Miami | | — | 50,321 | 50,321 |
| University of Wisconsin | | — | 24,931 | 24,931 |
| Microbiology and Infectious Diseases Research | 93.856 | 3,554,760 | — | 3,554,760 |
| Children's Memorial Hospital, Chicago | | — | 94,466 | 94,466 |
| Fisher Bioservice | | — | (1,462) | (1,462) |
| Ohio State University | | — | (14,092) | (14,092) |
| Biomedical Research and Research Training | 93.859 | 20,778,810 | — | 20,778,810 |
| Biostructures, Inc. | | — | 315,364 | 315,364 |
| Columbia University | | — | 13,675 | 13,675 |
| Cornell | | — | 85,531 | 85,531 |
| Johns Hopkins University | | — | 42,782 | 42,782 |
| Los Alamos National Laboratory | | — | 514,077 | 514,077 |
| University of Connecticut Health Center | | — | 23,527 | 23,527 |
| University of Massachusetts | | — | 82,316 | 82,316 |
| University of Wisconsin | | — | 51,094 | 51,094 |
| NIH Genetics and Developmental Biology Research and Research Training | 93.862 | 1,383,507 | — | 1,383,507 |
| NIH Population Research | 93.864 | 179,074 | — | 179,074 |
| University of Illinois at Chicago | | — | 11,500 | 11,500 |
| Child Health and Human Development Extramural Research | 93.865 | 6,610,442 | — | 6,610,442 |
| George Mason University | | — | 106,770 | 106,770 |
| Johns Hopkins University | | — | 97,040 | 97,040 |
| University of Kansas | | — | 27,446 | 27,446 |
| University of Michigan | | — | 25,024 | 25,024 |
| University of Washington | | — | 36,140 | 36,140 |
| Yale University | | — | 117,522 | 117,522 |
| Aging Research | 93.866 | 6,148,617 | — | 6,148,617 |
| National Bureau of Economic Research | | — | 615,042 | 615,042 |
| National Opinion Research Center | | — | 164,293 | 164,293 |
| Rutgers University | | — | (1,639) | (1,639) |
| University of California San Diego | | — | 12,842 | 12,842 |
| University of Illinois at Chicago | | — | 151,085 | 151,085 |
| University of Pennsylvania | | — | 97,544 | 97,544 |
| Vision Research | 93.867 | 3,281,893 | — | 3,281,893 |
| Medical Library Assistance | 93.879 | 160,770 | — | 160,770 |
| Healthcare and other Facilities | 93.887 | 56,900 | — | 56,900 |
| Resource and Manpower Development in the Environmental Health Sciences | 93.894 | 1,536,459 | — | 1,536,459 |
| Department of Health and Human Services | 93.937 | (93,854) | — | (93,854) |
| HIV Demonstration, Research, Public, and Professional Education Projects | 93.941 | (7,862) | — | (7,862) |
| Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups | 93.943 | — | (1) | (1) |
| Hektoen Institute For Medical Research | | — | (1) | (1) |
| Assistance Programs for Chronic Disease Prevention and Control | 93.945, PO#8629 | 25,415 | — | 25,415 |
| International Research and Research Training | 93.989 | 272,583 | — | 272,583 |

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|---|-------------------------------|---------------|---------------------|--------------------|
| Bioterrorism Training and Curriculum Development Project | 93.996 | \$ | | |
| Metropolitan Chicago Healthcare Council | | — | 169,363 | 169,363 |
| Department of Health and Human Services | | | | |
| Northwestern University | 93.RD | — | 3,744 | 3,744 |
| Department of Health and Human Services | 93.RD | 61,590 | — | 61,590 |
| Booz Allen Hamilton, Inc. | 93.RD,1435-04-04-CT73980 | — | 5 | 5 |
| Social & Scientific Systems | 93.RD,223-02-6003 | — | 40,980 | 40,980 |
| SAIC-Frederick, Inc. | 93.RD,22XS027 | — | 537 | 537 |
| SAIC-Frederick, Inc. | 93.RD,22XS027 | — | 16,481 | 16,481 |
| Urban Institute | 93.RD,233-02-0059 | — | 131,785 | 131,785 |
| Westat | 93.RD, 233-02-0087 | — | 7,117 | 7,117 |
| SAIC-Frederick, Inc. | 93.RD,23XS027 | — | 17,586 | 17,586 |
| SAIC-Frederick, Inc. | 93.RD,23XS027 T.O. 15 | — | 10,613 | 10,613 |
| SAIC-Frederick, Inc. | 93.RD,23XS027 T.O. 14 (P7285) | — | 6,322 | 6,322 |
| | 93.RD,263-MQ-611334 | 13,248 | — | 13,248 |
| | 93.RD,263-MQ-611958 | 1,128 | — | 1,128 |
| University of California San Francisco | 93.RD,3681SC A001 | — | 191,223 | 191,223 |
| Booz Allen Hamilton, Inc. | 93.RD,79581CBS10 | — | 1,712 | 1,712 |
| Booz Allen Hamilton, Inc. | 93.RD,79581CBS10 TO#5 | — | 159,699 | 159,699 |
| Booz Allen Hamilton, Inc. | 93.RD,79581CBS10#6 | — | 240,854 | 240,854 |
| Booz Allen Hamilton, Inc. | 93.RD,79581CBS10 TO#7 | — | 17,765 | 17,765 |
| Booz Allen Hamilton, Inc. | 93.RD,79581CBS10 TO#8 | — | 11,406 | 11,406 |
| Booz Allen Hamilton, Inc. | 93.RD,79581CBS10 #3 | — | 17,738 | 17,738 |
| Booz Allen Hamilton, Inc. | 93.RD,79581CBS10 #4 | — | 61,138 | 61,138 |
| National Opinion Research Center | 93.RD, AHRQ-02-0008 | — | 16,817 | 16,817 |
| | 93.RD,HHSN261200555009C | 333,198 | — | 333,198 |
| | 93.RD,HHSN261200622001C | 219,908 | — | 219,908 |
| | 93.RD,HHSN261200622001C | 204,670 | — | 204,670 |
| Westat | 93.RD,HHSN265200423601C | — | 20,997 | 20,997 |
| | 93.RD,HHSN266200400042C | 4,235,200 | — | 4,235,200 |
| University of California San Francisco | 93.RD,N01-AI-15416 | — | 163,986 | 163,986 |
| Immune Tolerance Network | 93.RD,N01-AI15476 | — | (22,458) | (22,458) |
| Duke University | 93.RD,N01AR22265 | — | 408 | 408 |
| Strang Cancer Prevention Center | 93.RD,N01-CN-95015-MAO | — | 4,254 | 4,254 |
| | 93.RD,N01-LM-3-3508 | 742,528 | — | 742,528 |
| Westat | 93.RD,N02 CM9704 | — | 1 | 1 |
| University of California San Diego | 93.RD,NS37756 | — | 1,402 | 1,402 |
| University of Illinois at Champaign | 93.RD,PN2EY016570 | — | 268 | 268 |
| Hospital For Special Surgery | 93.RD,R01-AR049772 | — | 35,210 | 35,210 |
| Northwestern University | 93.RD,R01DE138132 | — | 1,100 | 1,100 |
| Columbia University | 93.RD,R01ES005116 | — | 1,623 | 1,623 |
| | 93.RD,R01GM078381 | 29,781 | — | 29,781 |
| | 93.RD,R01HG20032 | 179,146 | — | 179,146 |
| University of California Berkeley | 93.RD,R21DK075021 | — | 13,357 | 13,357 |
| Rehabilitation Institute Research Corporation | 93.RD,R21-HD43271 | — | 5,735 | 5,735 |
| Iterative Therapeutics, Inc. | 93.RD,R41AI60257 | — | 35,000 | 35,000 |
| Emmes Corporation | 93.RD,U01DK067693 | — | 45,062 | 45,062 |
| Duke University | 93.RD,U01 HL63747 | — | 20,998 | 20,998 |
| University of Wisconsin | 93RD,U10EY14351 | — | 102 | 102 |
| Duke University | 93.RD,U10-CA76008 | — | 16,355 | 16,355 |
| Department of Health and Human Services Total | | 183,101,974 | 10,875,968 | 193,977,942 |
| Department of Justice: | | | | |
| National Institute of Justice Research, Evaluation and Development Project Grants | 16.560 | 155,335 | — | 155,335 |
| Department of Justice | | | | |
| University of California Berkeley | 16.RD,2004-IJ-CX-0036 | — | 5,266 | 5,266 |
| Urban Institute | 16.RD,UI-07895-000-000 | — | 22,459 | 22,459 |
| Department of Justice Total | | 155,335 | 27,725 | 183,060 |
| Department of State: | | | | |
| Department of State | 19.UNK | | | |
| Population Council | | — | 39,730 | 39,730 |
| Department of State Total | | — | 39,730 | 39,730 |
| Environmental Protection Agency: | | | | |
| Science To Achieve Results (STAR) Fellowship Program | 66.509 | | | |
| Johns Hopkins University | | — | 190,098 | 190,098 |
| Science To Achieve Results (STAR) Fellowship Program | 66.514 | 78,087 | — | 78,087 |
| Environmental Protection Consolidated Grants | | | | |
| Program Support | 66.600 | 1,150,859 | — | 1,150,859 |
| EPA Training and Fellowships for the Environmental | | | | |
| Protection Agency | 66.607 | (2,864) | — | (2,864) |
| Environmental Education Grants | 66.951 | 19,195 | — | 19,195 |
| Environmental Protection Agency | 66.RD, RD83241701 | — | 94,549 | 94,549 |
| Johns Hopkins University | | — | 94,549 | 94,549 |
| Environmental Protection Agency Total | | 1,245,277 | 284,647 | 1,529,924 |

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|---|-------------------|---------------|---------------------|--------------------|
| National Aeronautics and Space Administration: | | | | |
| National Aeronautics and Space Administration | 43.000 | \$ — | 52,284 | 52,284 |
| University of Illinois at Champaign | | — | — | — |
| Aerospace Education Services Program | 43.001 | 2,544,017 | — | 2,544,017 |
| California Institute of Technology | | — | 78,806 | 78,806 |
| Cornell University | | — | 79,728 | 79,728 |
| Jet Propulsion Laboratory | | — | 212,493 | 212,493 |
| Johns Hopkins University | | — | 60 | 60 |
| Massachusetts Institute of Technology | | — | 125,263 | 125,263 |
| Smithsonian Institution | | — | 99,865 | 99,865 |
| Southwest Research Institute | | — | 21,250 | 21,250 |
| Space Telescope Science Institute | | — | 252,339 | 252,339 |
| University Space Research Association | | — | 883,574 | 883,574 |
| National Aeronautics and Space Administration | | | | |
| Jet Propulsion Laboratory | 43.RD,1287719 | — | 10,802 | 10,802 |
| Jet Propulsion Laboratory | 43.RD,JPL-961170 | — | 23,326 | 23,326 |
| Adler Planetarium | 43.RD,NNG06G140G | — | 15,297 | 15,297 |
| University of Maryland | 43.RD, NNJ05HE73G | — | 52,940 | 52,940 |
| National Aeronautics and Space Administration Total | | 2,544,017 | 1,908,027 | 4,452,044 |
| National Endowment for the Humanities: | | | | |
| Promotion of the Humanities Division | | | | |
| of Preservation and Access | 45.149 | 171,891 | — | 171,891 |
| University of Michigan | | — | 13,637 | 13,637 |
| National Endowment for the Humanities Total | | 171,891 | 13,637 | 185,528 |
| National Science Foundation: | | | | |
| Engineering Grants | | | | |
| Northwestern University | 47.041 | 32,681 | — | 32,681 |
| University of Alaska Fairbanks | | — | 59,764 | 59,764 |
| University of California Irvine | | — | 76,443 | 76,443 |
| Mathematical and Physical Sciences | 47.049 | 17,121,287 | (44) | (44) |
| Columbia University | | — | 1,269,758 | 1,269,758 |
| Fermi National Accelerator Laboratory | | — | 94,161 | 94,161 |
| Harvard University | | — | 6,296 | 6,296 |
| Johns Hopkins University | | — | 58,976 | 58,976 |
| Smithsonian Institution | | — | (9,511) | (9,511) |
| University of California Santa Cruz | | — | 72,621 | 72,621 |
| University of Florida | | — | 363,149 | 363,149 |
| University of Illinois at Champaign | | — | 91,122 | 91,122 |
| University of Notre Dame | | — | 284,078 | 284,078 |
| University of Southern California | | — | 297,669 | 297,669 |
| University of Utah | | — | (5,588) | (5,588) |
| University of Wisconsin | | — | 655,819 | 655,819 |
| Geosciences | 47.050 | 3,884,013 | — | 3,884,013 |
| Massachusetts Institute of Technology | | — | 62,018 | 62,018 |
| State University of New York | | — | 473,919 | 473,919 |
| Computer and Information Science and Engineering | 47.070 | 12,451,643 | — | 12,451,643 |
| DePaul University | | — | 5,948 | 5,948 |
| University of Delaware | | — | 28,384 | 28,384 |
| University of Florida | | — | 168,714 | 168,714 |
| University of Illinois at Chicago | | — | 38,125 | 38,125 |
| University of Tennessee | | — | 4,466 | 4,466 |
| Virginia Tech | | — | 178,133 | 178,133 |
| Wright State University | | — | (31,312) | (31,312) |
| Biological Sciences | 47.074 | 2,364,465 | — | 2,364,465 |
| University of California San Diego | | — | 281,050 | 281,050 |
| University of California Santa Barbara | | — | 27,042 | 27,042 |
| University of Southern California | | — | 151,011 | 151,011 |
| Social, Behavioral, and Economic Sciences | 47.075 | 1,860,697 | — | 1,860,697 |
| International Computer Science Institute | | — | (2,671) | (2,671) |
| Northwestern University | | — | 81,459 | 81,459 |
| Purdue University | | — | 14 | 14 |
| State University of New York | | — | (3,114) | (3,114) |
| Temple University | | — | 202,096 | 202,096 |
| Education and Human Resources | 47.076 | 1,890,296 | — | 1,890,296 |
| Fermi National Accelerator Laboratory | | — | 37,949 | 37,949 |
| National Academy of Sciences | | — | 30 | 30 |
| Northwestern University | | — | 106,834 | 106,834 |
| University of Missouri – Columbia | | — | 72,876 | 72,876 |
| Polar Programs | 47.078 | 4,029,384 | — | 4,029,384 |
| National Science Foundation Total | | 43,634,466 | 5,197,684 | 48,832,150 |
| Veterans Administration: | | | | |
| Veterans Administration | 64.RD | 20,992 | — | 20,992 |
| Veterans Administration Total | | 20,992 | — | 20,992 |
| Research and Development Cluster Total | | 241,488,339 | 25,906,344 | 267,394,683 |

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|---|------------------|---------------|---------------------|--------------------|
| TRIO Cluster: | | | | |
| Department of Education: | | | | |
| TRIO Upward Bound | 84.047 | \$ 738,709 | — | 738,709 |
| TRIO McNair Post-Baccalaureate Achievement | 84.217 | 253,735 | — | 253,735 |
| Department of Education Total | | 992,444 | — | 992,444 |
| TRIO Cluster Total | | 992,444 | — | 992,444 |
| Other Programs: | | | | |
| Department of Agriculture | | | | |
| Agricultural and Rural Economic Research | 10.250 | 96,382 | — | 96,382 |
| Johns Hopkins University | | — | 907 | 907 |
| Forestry Research | | | | |
| University of Washington | | — | 11,216 | 11,216 |
| Department of Agriculture Total | | 96,382 | 12,123 | 108,505 |
| Department of Defense: | | | | |
| Military Medical Research and Development | 12.420 | 363 | — | 363 |
| Department of Defense Total | | 363 | — | 363 |
| Department of Education: | | | | |
| National Resource Centers and Fellowships Program for | | | | |
| Language and Area or Language and Int'l Studies | 84.015 | 2,463,691 | — | 2,463,691 |
| Northeastern Illinois University | | — | 136,325 | 136,325 |
| University of Illinois at Champaign | | — | 82,551 | 82,551 |
| International Research and Studies | 84.017 | 66,014 | — | 66,014 |
| Overseas Faculty Research Abroad | 84.019 | 39,379 | — | 39,379 |
| Overseas Doctoral Dissertation | 84.022 | 540,121 | — | 540,121 |
| Javits Fellowships | 84.170 | 614,037 | — | 614,037 |
| Language Resource Centers | 84.229 | 319,281 | — | 319,281 |
| Education Research, Development, and Dissemination | 84.305 | 542,643 | — | 542,643 |
| Gaining Early Awareness and Readiness for Undergraduate | | | | |
| Programs - Northeastern Illinois University | 84.334 | — | 33,789 | 33,789 |
| Mathematics and Science Partnerships | 84.366 | | | |
| Illinois State Board of Education | | — | 142,982 | 142,982 |
| Improving Teacher Quality State Grants | 84.367 | | | |
| Illinois Board of Higher Education | | — | 266,741 | 266,741 |
| Department of Education Total | | 4,585,166 | 662,388 | 5,247,554 |
| Department of Energy: | | | | |
| Office of Science Financial Assistance Program | | | | |
| Fermi National Accelerator Laboratory | 81.049 | — | (1) | (1) |
| Department of Energy | | | | |
| Fermi National Accelerator Laboratory | 81.149 | — | 284,364 | 284,364 |
| Department of Energy Total | | — | 284,363 | 284,363 |
| Department of Health and Human Services: | | | | |
| Research on Healthcare Costs, Quality, and Outcomes | 93.226 | 3,513 | — | 3,513 |
| Mental Health Research Grants | 93.242 | 74,134 | — | 74,134 |
| Substance Abuse and Mental Health Services Projects | | | | |
| of Regional and National Significance | 93.243 | | | |
| American Psychological Association | | — | 20,748 | 20,748 |
| Immunization Grants | 93.268 | | | |
| City of Chicago Department of Health | 93.268,PO#16193 | — | 25,117 | 25,117 |
| City of Chicago Department of Health | 93.268,PO#11298 | — | 73,702 | 73,702 |
| Drug Abuse and Addiction Research Programs | 93.279 | 49,387 | — | 49,387 |
| Trans-NIH Research Support | 93.310 | 70,843 | — | 70,843 |
| Department of Health and Human Services | 93.333 | (9) | — | (9) |
| Head Start | 93.600, PO#10761 | | | |
| Chicago Department of Children and Youth | | — | 90,115 | 90,115 |
| City of Chicago Department of Health | | — | 199,602 | 199,602 |
| Head Start | 93.600, PO#6026 | | | |
| City of Chicago Department of Health | | — | (5,175) | (5,175) |
| Social Services Research and Demonstration | 93.647 | 2,044 | — | 2,044 |
| Arthritis, Musculoskeletal and Skin Diseases Research | 93.846 | 17,465 | — | 17,465 |
| Diabetes, Endocrinology and Metabolism Research | 93.847 | 129,175 | — | 129,175 |
| Extramural Research Programs in the Neurosciences | 93.853 | 1,455 | — | 1,455 |
| Microbiology and Infectious Diseases Research | 93.856 | 13,328,009 | — | 13,328,009 |
| Biomedical Research and Research Training | 93.859 | 230,223 | — | 230,223 |
| Grants for Training in Primary Care Medicine and | | | | |
| Dentistry | 93.884 | 289,214 | — | 289,214 |
| HIV Emergency Relief Project Grants | 93.914 | | | |
| Aids Foundation of Chicago | 93.914,#40 | — | 127 | 127 |
| City of Chicago Department of Health | 93.914,PO# 5259 | — | 56,651 | 56,651 |
| Aids Foundation of Chicago | 93.914,PO# 8479 | — | 156,756 | 156,756 |
| City of Chicago Department of Health | 93.914,PO# 8479 | — | 181,639 | 181,639 |

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

| Federal agency and pass-through entity | CFDA numbers | Direct awards | Pass-through awards | Total expenditures |
|---|------------------------------|-----------------------|---------------------|--------------------|
| Healthy Start Initiative | 93.926 | \$ — | 43,448 | 43,448 |
| Illinois Department of Human Services | | — | 43,448 | 43,448 |
| HIV Prevention Activities Health Department Based | 93.940 | — | 54,836 | 54,836 |
| City of Chicago Department of Health | 93.940, PO#11752 | — | 54,836 | 54,836 |
| Healthy Start Initiative | 93.994 | — | 120,861 | 120,861 |
| Illinois Department of Human Services | | — | 120,861 | 120,861 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | — | 443,118 | 443,118 |
| Illinois Department of Public Health | | — | 443,118 | 443,118 |
| Department of Health and Human Services | | 121,272 | — | 121,272 |
| Department of Health and Human Services | 93.RD,R49CE000446 | 121,272 | — | 121,272 |
| City of Chicago Department of Health | 93.UNK,P.O.4294 | — | (1,440) | (1,440) |
| Department of Health and Human Services Total | | <u>14,316,725</u> | <u>1,460,105</u> | <u>15,776,830</u> |
| Department of Housing and Urban Development: | | | | |
| Doctoral Dissertation Research Grants | 14.516 | 9,500 | — | 9,500 |
| Early Doctoral Student Research Grants | 14.517 | (33) | — | (33) |
| Department of Housing and Urban Development Total | | <u>9,467</u> | <u>—</u> | <u>9,467</u> |
| Department of Justice: | | | | |
| Department of Justice | | | | |
| Illinois Criminal Justice Information Authority | 16.UNK | — | 22,143 | 22,143 |
| Department of Justice Total | | <u>—</u> | <u>22,143</u> | <u>22,143</u> |
| Department of State: | | | | |
| Department of State | | | | |
| American Research Center In Egypt | 19.UNK,263-G-00-05-00005-00 | 372,372 | — | 372,372 |
| Association Liaison Office For Universal Cooperation in Development | 19.UNK,263G00308900 | — | 80,460 | 80,460 |
| Department of State | 19.UNK,HNE-A-00-97-000-59-0 | — | 198,056 | 198,056 |
| Department of State | 19.UNK,S-ECAAE-07-CA-033(JY) | 163,990 | — | 163,990 |
| Department of State Total | | <u>536,362</u> | <u>278,516</u> | <u>814,878</u> |
| Institute of Museum Services: | | | | |
| Museums for America | 45.301 | 53,456 | — | 53,456 |
| Conservation Project Support | 45.303 | 45,587 | — | 45,587 |
| National Leadership Grants | 45.312 | 77,990 | — | 77,990 |
| Institute of Museum Services Total | | <u>177,033</u> | <u>—</u> | <u>177,033</u> |
| National Aeronautics and Space Administration: | | | | |
| Aerospace Education Services Program | 43.001 | — | 26,587 | 26,587 |
| Space Telescope Science Institute | | — | 262 | 262 |
| University of Wisconsin – Green Bay | | — | — | — |
| National Aeronautics and Space Administration Total | | <u>—</u> | <u>26,849</u> | <u>26,849</u> |
| National Endowment for the Arts: | | | | |
| Promotion of the Arts Grants to Organizations and Individuals | 45.024 | 7,044 | — | 7,044 |
| National Endowment for the Arts Total | | <u>7,044</u> | <u>—</u> | <u>7,044</u> |
| National Endowment for the Humanities: | | | | |
| Promotion of the Humanities Division of Preservation and Access | 45.149 | 121,997 | — | 121,997 |
| Promotion of the Humanities Professional Development | 45.163 | (6,502) | — | (6,502) |
| Promotion of the Humanities Public Programs | 45.164 | 2,226 | — | 2,226 |
| National Endowment for the Humanities Total | | <u>117,721</u> | <u>—</u> | <u>117,721</u> |
| National Science Foundation: | | | | |
| Mathematical and Physical Sciences | 47.049 | 951,631 | — | 951,631 |
| Social, Behavioral, and Economic Sciences | 47.075 | 142,803 | — | 142,803 |
| Education and Human Resources | 47.076 | 924,085 | — | 924,085 |
| University of Missouri – Columbia | | — | 2,256 | 2,256 |
| National Science Foundation Total | | <u>2,018,519</u> | <u>2,256</u> | <u>2,020,775</u> |
| Veterans Administration: | | | | |
| Veterans Administration | 64.UNK | 15,056 | — | 15,056 |
| Veterans Administration Total | | <u>15,056</u> | <u>—</u> | <u>15,056</u> |
| Other Programs Total | | <u>21,879,838</u> | <u>2,748,743</u> | <u>24,628,581</u> |
| Total expenditures | | <u>\$ 369,626,913</u> | <u>28,655,087</u> | <u>398,282,000</u> |

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(1) **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) displays the expenditures charged to federal programs by The University of Chicago (the University) on the accrual basis of accounting for the year ended June 30, 2007. The Schedule excludes expenditures that the University has incurred for operating Argonne National Laboratory, a government-owned facility, which the University manages under a contract with the U.S. Department of Energy. In addition, the Schedule excludes expenditures incurred by the University of Chicago Medical Center. The Schedule summarizes expenditures by:

- Primary federal funding agency;
- Direct award agreements between the University and federal granting agencies; and
- Subaward (pass-through award) agreements between the University and nonfederal granting agencies.

Major Programs

The University's fiscal year 2007 major programs include the student financial assistance program cluster and a construction grant from the National Institute of Allergy and Infectious Diseases (NIAID).

The student financial assistance program cluster includes those awards that provide general student financial aid. They include Federal Pell grants, Federal Supplemental Educational Opportunity Grants (FSEOG), and Federal Work Study (FWS) awards. The University also receives awards to make loans to eligible students under the Perkins, Health Professions – Primary Care, and Loans to Disadvantaged Students loan programs. The University and various financial institutions also issue federally guaranteed loans to students under the Federal Family Educational Loan Program. The student financial assistance cluster does not include programs that provide fellowships or similar awards to students on a competitive basis; the Schedule classifies those programs either as research and development or as training.

The NIAID construction grant provides funding for constructing a Regional Biocontainment Laboratory that will contain Biosafety Level 2 and 3 laboratories, animal facilities, and research support space.

Nonmajor Programs

The University's fiscal year 2007 nonmajor programs include the research and development cluster, training other than the training included in the research and development cluster, public service, and operations. The research and development cluster includes those awards that are for basic and applied research and development activities and for research training. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, defines research and development as follows: research is systematic study directed toward fuller scientific knowledge or understanding of the subject studied; development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. Training programs include awards that support faculty and student training activities. Public service programs include activities that are established primarily to provide noninstructional services beneficial to individuals and groups external to the University. The operations program includes awards that support the University libraries.

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Student Financial Assistance Expenditures

The University recognizes expenditures for federal student financial aid programs as they are incurred. Student financial aid programs with fiscal year 2007 expenditures include the Federal Pell program grants to students, the federal share of students' FSEOG program grants, and the federal share of the FWS program expenditures.

Direct and Indirect Federal Award Expenditures

Expenditures under other federal awards consist of direct and indirect costs. Direct costs are those that can be easily identified with an individual federally sponsored project. The salary of a principal investigator of a sponsored research project and the materials consumed by the project are examples of direct costs.

Unlike direct costs, indirect costs cannot easily be identified with an individual federally sponsored project. Indirect costs are the costs of services and resources that benefit both sponsored and nonsponsored projects and activities. Indirect costs consist of expenses incurred for administration, library, plant maintenance, and building and equipment depreciation.

The University and federal agencies use an indirect cost rate to charge indirect costs to individual federally sponsored projects. The rate is the result of a number of complex cost allocation procedures that the University uses to allocate its indirect costs to both sponsored and nonsponsored activities. The costs allocated to sponsored projects are divided by the direct costs of sponsored projects to arrive at a rate. Before the rate is used, the U.S. Department of Health and Human Services must approve it.

(2) Summary of Indirect Costs

Indirect cost charges to federal awards for the year ended June 30, 2007 were as follows:

| | | |
|--------------------------|----|--------------------------|
| Research and development | \$ | 66,212,045 |
| Other | | <u>495,200</u> |
| Total | \$ | <u><u>66,707,245</u></u> |

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(3) Summary of Subrecipient Payments

Subrecipient payments charged to federal awards for the year ended June 30, 2007 were as follows:

Research and development:

| | |
|---|-------------------|
| Department of Agriculture | \$ 110,169 |
| Department of Defense | 1,490,360 |
| Department of Education | 288,179 |
| Department of Energy | 116,950 |
| Department of Health and Human Services | 21,198,166 |
| Department of Justice | 18,307 |
| Environmental Protection Agency | 53,396 |
| National Aeronautics and Space Administration | 74,987 |
| National Science Foundation | 11,236,026 |
| | <u>34,586,540</u> |

Other:

| | |
|---------------------------------------|----------------|
| Department of Agriculture | 63,722 |
| Department of Education | 107,884 |
| National Endowment for the Humanities | 21,879 |
| National Science Foundation | 13,771 |
| | <u>207,256</u> |

Total \$ 34,793,796

(4) Federal Loan Programs

Loans made to University students under the various federal loan programs for the year ended June 30, 2007 are summarized below:

University federal loans:

| | |
|--------------------------------|-------------------|
| Stafford | \$ 52,941,820 |
| Perkins | <u>8,642,944</u> |
| Total University federal loans | <u>61,584,764</u> |

Non-University federal loans:

| | |
|---|-----------------------------|
| Stafford | 16,814,156 |
| Parent Loans for Undergraduate Students | <u>21,585,271</u> |
| Total non-University federal loans | <u>38,399,427</u> |
| Total | \$ <u><u>99,984,191</u></u> |

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

University federal loans outstanding at June 30, 2007 are shown below:

| | |
|---------------------------------|------------------------------|
| University federal loans: | |
| Stafford | \$ 67,714,583 |
| Perkins | 35,787,355 |
| Health professions | 457,636 |
| Loans to disadvantaged students | <u>18,535</u> |
| Total | \$ <u><u>103,978,109</u></u> |

For non-University federal loans, the University is responsible only for the performance of certain administrative duties; therefore, the outstanding loans for those programs are not included in the University's consolidated financial statements.



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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
The University of Chicago:

We have audited the consolidated financial statements of The University of Chicago (the University) as of and for the year ended June 30, 2007 and 2006, and have issued our report thereon dated September 21, 2007. Our report is based on the report of other auditors insofar as it relates to the amounts included in the consolidated financial statements for The University of Chicago Medical Center. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express such an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the



determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in a separate letter dated September 21, 2007.

This report is intended solely for the information and use of the Board of Trustees, University management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 21, 2007



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

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees
The University of Chicago:

Compliance

We have audited the compliance of The University of Chicago (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (Compliance Supplement), that are applicable to each of its major federal programs for the year ended June 30, 2007, except those requirements discussed in the third and fourth paragraphs of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's consolidated financial statements include the operations of The University of Chicago Medical Center (the Medical Center), which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2007. Our audit, described below, did not include the operations of the Medical Center because the Medical Center is audited by other auditors.

We did not audit the University's compliance with the requirements governing the billing, collection, and due diligence functions in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by Campus Partners. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. Campus Partners' compliance with the requirements governing the functions that it performed for the University for the year ended June 30, 2007 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of Campus Partners' compliance with such requirements.

We did not audit the University's compliance with the requirements governing Reporting and Special Tests and Provisions 1 through 10 in accordance with the requirements of the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender). Those requirements govern functions performed by Illinois Designated Account Purchase Program (IDAPP). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. IDAPP's compliance with the requirements governing the functions that it performed for the University for the year ended June 30, 2007 was examined by other accountants in



accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*. Our report does not include the results of the other accountants' examination of IDAPP's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described in the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph of this section that are applicable to each of its major federal programs for the year ended June 30, 2007 other than those requirements discussed in the third and fourth paragraphs of this section. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 07-01.

Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express such an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing billing, collection, and due diligence functions in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by Campus Partners. Internal control over compliance relating to such functions for the year ended June 30, 2007 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of Campus Partners' internal control over compliance related to such functions.

Requirements governing Reporting and Special Tests and Provisions 1 through 10 in the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender) are performed by IDAPP. Internal control over compliance related to such functions for the year ended June 30, 2007 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*. Therefore, the scope of our work did not extend to internal control maintained at IDAPP. Our report does not include the results of the other accountants' examination of IDAPP's internal control over compliance related to such functions.



A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, University management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 14, 2008

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2007

(1) Summary of Auditors' Results

- (a) The type of report issued on the consolidated financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the consolidated financial statements: **None reported**
Material weaknesses: **No**
- (c) Noncompliance which is material to the consolidated financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under section .510(a) of OMB Circular A-133: **Yes**
- (g) Major programs:
Student Financial Assistance Cluster (including the Federal Family Education Loan Lender Program) – various CFDA numbers
Microbiology and Infectious Diseases Research – CFDA 93.856
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under section .530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None

THE UNIVERSITY OF CHICAGO
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2007

(3) Findings and Questioned Costs Relating to Federal Awards:

Finding 07-01 *Overaward of Student Financial Assistance*

Federal Agency: US Department of Education (USDE)

Program Name: Student Financial Assistance Cluster – Federal Family Education Loan Program
 Student Financial Assistance Cluster – Federal Work-Study Program
 Student Financial Assistance Cluster – Federal Perkins Loan Program

| | | |
|---|--------|--------------|
| CFDA # and Program Expenditures: | 84.032 | \$91,341,247 |
| | 84.033 | 2,647,699 |
| | 84.038 | 8,642,944 |

Award Numbers: None (84.032)
 P033A051305 (84.033)
 P038A021305 (84.038)

Questioned Costs: \$33,809

Requirement

According to 34 CFR 674.9(c) and 34 CFR 675.9(c), a student is eligible if the student has financial need as determined in accordance with Part F of Title IV of the Higher Education Act. In addition, according to 34 CFR 682.201(a)(2)(i), in the case of any student who seeks an unsubsidized Stafford loan for the cost of attendance at a school that participates in the Stafford Loan Program, the student must receive a determination of need for a subsidized Stafford loan.

Condition Found

During our testwork over 30 graduate student financial assistance files, we identified one student who received need-based aid in excess of her financial need. Upon further review of this student’s aid package, we noted the student had been awarded additional institutional scholarship funds by her academic department after her aid had been packaged by the Graduate Student Loan Administration. The additional funds awarded by the academic department had not been communicated to the Graduate Student Loan Administration in accordance with procedures established by the University. As a result, this student received \$2,241 in subsidized loans in excess of her financial need.

In response to the exception identified in our testwork, University personnel performed a review of the packaging for all students for which changes were made in institutional aid after packaging had been completed. The University identified an additional 14 students that had been overawarded federal aid as a result of its review. The overawards identified by the University totaled \$33,809 and were attributable to the federal programs as follows:

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2007

| | | | |
|--------|---|----|----------------------|
| 84.032 | Federal Family Educational Loan Program | \$ | 19,536 |
| 84.033 | Federal Work Study Program | | 8,859 |
| 84.038 | Federal Perkins Loan Program | | <u>5,414</u> |
| | | \$ | <u><u>33,809</u></u> |

The Graduate Student Loan Administration office awarded approximately \$39,211,000 in financial assistance to students.

Effect

Failure to properly award student financial assistance funds may result in unallowable costs being charged to the federal programs.

Recommendation

We recommend the University review its current procedures for awarding student financial assistance and implement any changes necessary to ensure changes to awards of institutional aid made by academic departments are properly identified and federal aid packages are adjusted appropriately.

Views of Responsible Officials

University management agrees with the description of the condition found and the auditors' recommendation. To correct the condition, the University repackaged the affected students' financial aid and returned the over awarded amounts to the affected federal programs. Management also reemphasized existing policies and procedures to student loan staff and instituted a new reporting and analysis procedure to identify possible future instances of over awarded federal aid.