

**THE UNIVERSITY OF CHICAGO**

OMB Circular A-133 Audit Report

Year ended June 30, 2006

(With Independent Auditors' Report Thereon)

# THE UNIVERSITY OF CHICAGO

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**KPMG LLP**  
303 East Wacker Drive  
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## **Independent Auditors' Report**

The Board of Trustees  
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago as of June 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The University of Chicago Hospitals (the Hospitals), which statements reflect total assets constituting 15% and 15% and total revenue constituting 30% and 32% of the related consolidated totals in 2006 and 2005, respectively. Our opinion, insofar as it relates to the amounts included for the Hospitals, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2006 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 audit.



Our 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, 2006 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 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

September 19, 2006

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

June 30, 2006 and 2005

(In thousands of dollars)

	2006			2005
	University	Hospitals	Consolidated	Consolidated
Changes in unrestricted net assets:				
Operating:				
Revenue:				
Tuition and fees – gross	\$ 445,960	—	445,960	420,361
Less:				
Undergraduate student aid	(51,847)	—	(51,847)	(46,329)
Graduate student aid	(134,808)	—	(134,808)	(128,317)
Tuition and fees – net	259,305	—	259,305	245,715
Government grants and contracts	317,773	—	317,773	305,291
Private gifts, grants, and contracts	105,807	698	106,505	93,080
Endowment payout	176,648	6,877	183,525	183,914
Earnings on other investments	7,044	14,753	21,797	25,276
Patient care	175,569	795,273	970,842	945,735
Auxiliaries	168,770	—	168,770	160,725
Other income	122,521	44,286	166,807	131,689
Net assets released from restriction:	44,923	—	44,923	29,397
Total operating revenue	1,378,360	861,887	2,240,247	2,120,822
Expenses:				
Compensation:				
Academic salaries	344,814	—	344,814	330,129
Staff salaries	333,506	364,129	697,635	623,459
Benefits	191,919	75,430	267,349	223,834
Total compensation	870,239	439,559	1,309,798	1,177,422
Other operating expenses:				
Utilities, alterations, and repairs	43,113	22,492	65,605	59,772
Depreciation	84,545	46,647	131,192	121,068
Interest	34,354	13,994	48,348	36,283
Supplies, services, and other	334,665	279,153	613,818	577,584
Insurance	35,355	25,380	60,735	49,882
Total other operating expenses	532,032	387,666	919,698	844,589
Total operating expenses	1,402,271	827,225	2,229,496	2,022,011
Excess (deficiency) of operating revenue over expenses	\$ (23,911)	34,662	10,751	98,811

**THE UNIVERSITY OF CHICAGO**

Consolidated Statements of Activities

June 30, 2006 and 2005

(In thousands of dollars)

	2006			2005
	University	Hospitals	Consolidated	Consolidated
Changes in unrestricted net assets:				
Nonoperating:				
Investment gains	\$ 561,219	39,322	600,541	454,215
Minimum pension liability adjustment	70,432	7,607	78,039	(78,903)
Loss on debt refinancing	—	—	—	(8,998)
Other, net	27,803	(9,588)	18,215	(15,706)
Cumulative effect of the change in accounting for asset retirement obligations	(70,056)	(7,939)	(77,995)	—
Change in unrestricted net assets from nonoperating activities	589,398	29,402	618,800	350,608
Increase in unrestricted net assets	565,487	64,064	629,551	449,419
Changes in temporarily restricted net assets:				
Private gifts	97,001	41,712	138,713	78,930
Endowment payout	286	—	286	285
Investment gains	1,936	—	1,936	3,556
Other, net	(31,325)	(7,106)	(38,431)	(23,779)
Net assets released from restrictions	(44,923)	—	(44,923)	(29,397)
Increase in temporarily restricted net assets	22,975	34,606	57,581	29,595
Changes in permanently restricted net assets:				
Private gifts	42,053	159	42,212	44,086
Endowment payout	1,853	—	1,853	1,728
Investment gains	3,837	—	3,837	2,343
Other, net	25,482	—	25,482	6,537
Increase in permanently restricted net assets	73,225	159	73,384	54,694
Increase in net assets	661,687	98,829	760,516	533,708
Net assets at beginning of year	4,628,497	576,923	5,205,420	4,671,712
Net assets at end of year	\$ 5,290,184	675,752	5,965,936	5,205,420

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**

Consolidated Balance Sheets

June 30, 2006 and 2005

(In thousands of dollars)

Assets	2006			2005
	University	Hospitals	Consolidated	Consolidated
Cash and cash equivalents	\$ —	21,726	21,726	47,948
Notes and accounts receivable	209,725	109,911	319,636	341,841
Collateral held for securities loaned	539,719	—	539,719	571,734
Prepaid expenses and other assets	27,190	52,337	79,527	75,198
Pledges receivable	184,549	27,146	211,695	181,773
Investments	5,264,022	612,265	5,876,287	5,162,755
Land, buildings, equipment, and books	1,300,562	497,344	1,797,906	1,689,974
Total assets	\$ 7,525,767	1,320,729	8,846,496	8,071,223
<b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 207,120	258,594	465,714	491,441
Deferred revenue	76,703	—	76,703	73,728
Payable under securities loan agreements	539,719	—	539,719	571,734
Assets held in custody for others	31,199	—	31,199	27,347
Self-insurance liability	170,600	6,934	177,534	169,249
Asset retirement obligation	69,200	7,939	77,139	—
Notes and bonds payable	1,103,978	371,510	1,475,488	1,492,782
Refundable U.S. Government student loan funds	37,064	—	37,064	39,522
Total liabilities	2,235,583	644,977	2,880,560	2,865,803
Net assets:				
Unrestricted	4,004,574	599,411	4,603,985	3,974,434
Temporarily restricted	351,993	70,525	422,518	364,937
Permanently restricted	933,617	5,816	939,433	866,049
Total net assets	5,290,184	675,752	5,965,936	5,205,420
Total liabilities and net assets	\$ 7,525,767	1,320,729	8,846,496	8,071,223

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF CHICAGO**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2006 and 2005  
(In thousands of dollars)

	<b>2006</b>			<b>2005</b>
	<b>University</b>	<b>Hospitals</b>	<b>Consolidated</b>	<b>Consolidated</b>
Cash flows from operating activities:				
Increase in net assets	\$ 661,687	98,829	760,516	533,708
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation	84,545	46,647	131,192	121,068
Loss on debt refinancing	—	—	—	8,998
Loss on disposal of land, buildings, equipment, and books	947	197	1,144	3,828
Net gain on investments	(667,876)	(2,248)	(670,124)	(548,687)
Private gifts and grants restricted for long-term investment	(139,054)	(41,871)	(180,925)	(123,009)
Other nonoperating changes	40,395	(26,883)	13,512	50,227
Minimum pension liability adjustment	(70,432)	(7,607)	(78,039)	78,903
Cumulative effect of the change in accounting for asset retirement obligations	70,056	7,939	77,995	—
Changes in assets and liabilities:				
Notes and accounts receivable	494	(740)	(246)	(21,743)
Prepaid expenses and other assets	(1,316)	1,571	255	2,492
Accounts payable and other liabilities	28,772	17,876	46,648	47,894
Self-insurance liability	8,589	(304)	8,285	15,182
Total adjustments	(644,880)	(5,423)	(650,303)	(364,847)
Net cash provided by operating activities	16,807	93,406	110,213	168,861
Cash flows from investing activities:				
Purchase of investments	(598,409)	(169,230)	(767,639)	(1,372,380)
Proceeds from sale of investments	681,128	87,741	768,869	1,203,146
Acquisition of land, buildings, equipment, and books	(161,322)	(77,851)	(239,173)	(297,310)
Loans disbursed	(63,303)	—	(63,303)	(65,584)
Principal collected on loans	85,754	—	85,754	56,977
Net cash used in investing activities	(56,152)	(159,340)	(215,492)	(475,151)
Cash flows from financing activities:				
Proceeds from issuance of notes and bonds payable	272,448	29,000	301,448	714,122
Principal payments on notes and bonds payable	(311,201)	(7,306)	(318,507)	(459,610)
Proceeds from private gifts and grants restricted for long-term investment	118,493	32,510	151,003	100,600
Other nonoperating changes	(40,395)	(14,492)	(54,887)	(52,357)
Net cash provided by financing activities	39,345	39,712	79,057	302,755
Decrease in cash and cash equivalents	—	(26,222)	(26,222)	(3,535)
Cash and cash equivalents at:				
Beginning of year	—	47,948	47,948	51,483
End of year	\$ —	21,726	21,726	47,948
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 45,668	13,100	58,768	50,408

See accompanying notes to consolidated financial statements.

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

### (1) Summary of Significant Accounting Policies

#### *Description of Business*

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

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

#### *Basis of Presentation*

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

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

For reporting purposes, however, the University follows the reporting requirements of Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). SFAS No. 117 requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three classes of net assets – unrestricted, temporarily restricted, and permanently restricted. Descriptions of the three net asset categories and the types of transactions affecting each category follow:

- Unrestricted – net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University – instruction, conduct of sponsored research, and provision of health care services. In addition to these exchange transactions, changes in this category of net assets include 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, 2006 and 2005

(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:

Detail of Net Assets	2006			Total	2005 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
University:					
Operating	\$ 71,428	14,448	—	85,876	99,852
Pledges	—	134,598	49,951	184,549	163,988
Student loans	—	—	14,568	14,568	13,713
Endowment	3,793,857	29,692	838,737	4,662,286	3,958,624
Annuity and life income	—	13,859	30,361	44,220	43,065
Net investment in physical properties	139,289	159,396	—	298,685	349,255
Subtotal	<u>4,004,574</u>	<u>351,993</u>	<u>933,617</u>	<u>5,290,184</u>	<u>4,628,497</u>
Hospitals:					
Operating	294,340	43,756	—	338,096	287,419
Pledges	—	26,769	377	27,146	17,785
Endowment	172,189	—	5,439	177,628	155,315
Net investment in physical properties	132,882	—	—	132,882	116,404
Subtotal	<u>599,411</u>	<u>70,525</u>	<u>5,816</u>	<u>675,752</u>	<u>576,923</u>
Total	<u>\$ 4,603,985</u>	<u>422,518</u>	<u>939,433</u>	<u>5,965,936</u>	<u>5,205,420</u>

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

*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.

As discussed in note 12, based primarily on participation, the University and Hospitals share equally in contributions made to the defined benefit pension plan. For financial reporting purposes the Hospitals recognizes its share of annual contributions to the plan as expense. If the fiscal 2006 pension expense of \$41,495 was allocated based on plan participation, the University excess (deficiency) of operating revenue over expenses and increase in net assets in the consolidated statement of activities would increase by \$15,747 with a corresponding decrease in the Hospitals excess (deficiency) of operating revenue over expenses and increase in net assets.

As discussed in note 2, the Hospitals provides certain operating support to the University's Biological Sciences Division. Such support is included in other operating income by the University to the extent expended for noncapital purposes during the period, and amounted to \$17,512 in fiscal 2006 and \$14,373 in fiscal 2005.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

***Tuition and Fees***

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

***Gifts, Grants, and Contracts***

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2006 and 2005 are \$42,733 and \$40,731, respectively, of private grant and contract receipts which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2006 and 2005 consists of the following:

	<b>2006</b>			<b>2005</b>
	<u>University</u>	<u>Hospitals</u>	<u>Total</u>	<u>Total</u>
Private gifts:				
Unrestricted as to use	\$ 15,297	698	15,995	17,447
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	35,634	—	35,634	21,802
Private grants and contracts	<u>54,876</u>	<u>—</u>	<u>54,876</u>	<u>53,831</u>
Total	<u>\$ 105,807</u>	<u>698</u>	<u>106,505</u>	<u>93,080</u>

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

***Endowment Payout***

The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, between 4.5% and 5.5% of a twelve quarter moving average of the fair value of endowment investments, lagged by one year, is available each year for expenditure in the form of endowment payout. The exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5.15% and 5.1% for the fiscal years ended June 30, 2006 and 2005, 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 2006 and 2005 consists of the following:

	2006			2005
	University	Hospitals	Total	Total
Interest, dividends, and rents	\$ 77,903	2,929	80,832	80,790
Realized investment gains used to support the endowment payout formula	100,884	3,948	104,832	105,137
Total	\$ 178,787	6,877	185,664	185,927

Unrestricted operating endowment payout revenue for fiscal years 2006 and 2005 consists of the following:

	2006			2005
	University	Hospitals	Total	Total
Unrestricted payout	\$ 47,393	6,877	54,270	55,398
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	129,255	—	129,255	128,516
Total	\$ 176,648	6,877	183,525	183,914

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

### ***Patient Care***

Net patient service revenue reflects the estimated net realizable amounts due from third-party payors for services rendered. A majority of patient care revenue is derived from contractual agreements with Medicare, Medicaid, Blue Cross/Blue Shield, managed care, and certain other programs. Payments under these agreements and programs are based on specific amounts per case or contracted prices. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

### ***Cash Equivalents***

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

### ***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 their independent outside auditors and the University Investment Office. The risk of any derivative exposure is limited to the amount invested with each manager. Derivative investments are recorded at fair value and valuation gains and losses are included in the consolidated statements of activities.

### ***Land, 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.

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

#### *Split Interest Agreements*

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

#### *Use of Estimates*

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

#### *Reclassifications*

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

## (2) **The University of Chicago Hospitals**

#### *Organization*

The University of Chicago Hospitals was incorporated and assumed the operations of the University hospitals and clinics on October 1, 1986. The University of Chicago Hospitals also includes QV, Inc., an affiliated not-for-profit health care corporation operating clinics in the Chicago area. The University, as the sole corporate member of the Hospitals, elects the Hospitals' Board of Trustees.

#### *Agreements with the University*

The relationship between the University and the Hospitals is defined in an Affiliation Agreement and an Operating Agreement, both dated October 1, 1986. The Operating Agreement was amended and a Lease Agreement between the University and the Hospitals was entered into as of June 30, 1987. Additional lease agreements have been entered into from time to time. The Affiliation Agreement specifies University and Hospitals' responsibilities for the provision of patient care, teaching, and research at the hospitals and clinics. The Operating Agreement provides for the management and operation by the Hospitals of the University's hospital and clinic facilities. The Lease Agreement provides a leasehold interest in the University health care facilities and certain land and parking structures.

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

#### ***Basis of Presentation***

The Hospitals maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the American Institute of Certified Public Accountants *Audit and Accounting Guide Health Care Organizations*. For purposes of presentation of the Hospitals' financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for uncollectible Hospitals' patient accounts receivable of \$44,236 in fiscal year 2006 and \$50,947 in fiscal year 2005 has been reclassified as a reduction of patient care revenue and (2) realized investment gains of \$37,074 in fiscal year 2006 and \$10,570 in fiscal year 2005 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

The Hospitals have made certain commitments to support the enhancement and expansion of several programs within the University's Biological Sciences Division. During fiscal 2006 and fiscal 2005, the Hospitals transferred \$15,000 annually to the University in support of these programs.

### **(3) Investments**

Fair values of investments at June 30, 2006 and 2005 are shown below:

	<b>2006</b>				<b>2005 Total</b>
	<b>University and Hospitals endowment</b>	<b>Other investments</b>		<b>Total</b>	
		<b>University</b>	<b>Hospitals</b>		
Cash equivalents	\$ 16,154	1,570	1,407	19,131	23,249
Domestic public equities	644,067	47,048	232,847	923,962	1,158,528
International public equities	1,258,238	25,340	2,037	1,285,615	761,523
Private equity	586,687	3,314	19,241	609,242	679,489
Real assets	558,356	14,333	6,011	578,700	355,582
Absolute return	1,303,516	7,362	—	1,310,878	731,560
High yield bonds	—	441	—	441	203,963
Fixed income	448,172	169,060	154,403	771,635	837,810
Funds held in trust (primarily cash equivalents and bonds)	24,724	333,268	18,691	376,683	411,051
Total	\$ 4,839,914	601,736	434,637	5,876,287	5,162,755

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2006, the University had unfunded commitments of \$1,162,134 which are likely to be called through 2012.

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(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2006 and 2005:

	<b>2006</b>			<b>2005</b>
	<b>University</b>	<b>Hospitals</b>	<b>Consolidated</b>	<b>Consolidated</b>
Investment return:				
Endowment yield (interest, dividends, and rents)	\$ 77,903	2,929	80,832	80,790
Realized gains on investments	421,494	16,324	437,818	354,326
Unrealized gains on investments	245,091	9,795	254,886	201,669
Total investment return	744,488	29,048	773,536	636,785
Endowment payout	(178,787)	(6,877)	(185,664)	(185,927)
Net investment return	565,701	22,171	587,872	450,858
Other changes in endowment investments:				
Gifts and pledge payments received in cash	64,284	142	64,426	50,948
Transfers to create funds functioning as endowment	71,133	—	71,133	9,828
Other changes	2,544	—	2,544	1,791
Total other changes in endowment investments	137,961	142	138,103	62,567
Net change in endowment investments	703,662	22,313	725,975	513,425
Endowment investments at:				
Beginning of year	3,958,624	155,315	4,113,939	3,600,514
End of year	\$ 4,662,286	177,628	4,839,914	4,113,939

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Notes to Consolidated Financial Statements

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**(4) Notes and Accounts Receivable**

Components of notes and accounts receivable at June 30, 2006 and 2005 are shown below:

	<b>2006</b>		<b>2005</b>	
	<b>University</b>	<b>Hospitals</b>	<b>University</b>	<b>Hospitals</b>
Patients	\$ 106,275	145,036	103,145	147,931
Students:				
Loans	106,815	—	128,880	—
Tuition and fees	2,924	—	4,636	—
U.S. Government	24,523	—	22,711	—
All other	63,781	—	64,381	—
Subtotal	304,318	145,036	323,753	147,931
Less allowance for doubtful accounts (primarily patient receivables)	(94,593)	(35,125)	(91,083)	(38,760)
Total	\$ 209,725	109,911	232,670	109,171

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

Components of land, buildings, equipment, and books at June 30, 2006 and 2005 are shown below:

	<b>2006</b>		<b>2005</b>	
	<b>University</b>	<b>Hospitals</b>	<b>University</b>	<b>Hospitals</b>
Land	\$ 41,117	33,093	41,890	26,415
Buildings	1,434,157	512,399	1,231,339	500,512
Equipment	291,932	317,205	259,706	302,129
Books	197,832	—	190,532	—
Construction in-progress	100,293	91,560	225,346	53,061
Subtotal	2,065,331	954,257	1,948,813	882,117
Less accumulated depreciation	(764,769)	(456,913)	(725,294)	(415,662)
Total	\$ 1,300,562	497,344	1,223,519	466,455

# THE UNIVERSITY OF CHICAGO

## Notes to Consolidated Financial Statements

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### (6) Asset Retirement Obligation

In fiscal 2006, the University and Hospitals adopted Financial Accounting Standards Board Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations." FIN 47 requires that a liability be recognized for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. Upon recognition of a liability, the asset retirement cost is recorded as an increase in the carrying value of the related long-lived asset and then depreciated over the life of the asset. The University and Hospitals' 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 University and Hospitals' obligations to remove asbestos was estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable.

As a result of an evaluation of available asbestos remediation estimates, the University and Hospitals recorded liabilities of \$70,056 and \$7,939, respectively, for the asset retirement obligations. Accumulated depreciation was measured from fiscal 1973, the date the liability and capitalized asset would have been recognized if FIN 47 were in effect when the University and Hospitals incurred the liability. Accordingly, the capitalized asset associated with the asset retirement obligation is considered to be fully depreciated. As a result, the cumulative effect of this change in accounting principle was recorded as a non-operating reduction in unrestricted net assets in fiscal 2006.

**THE UNIVERSITY OF CHICAGO**  
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**(7) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2006 and 2005 are shown below:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2006</u>	<u>2005</u>
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA)				
Series 1993	2014	5.8% – 6.0%	\$ 3,300	3,625
Series 1998A	2039	5.0% – 5.3%	124,945	124,945
Series 2001A	2042	5.3%	2,860	2,860
Series 2003A	2034	4.0% – 5.3%	191,275	195,375
Illinois Finance Authority (IFA)				
Series 2004A	2035	5.0%	100,000	100,000
Series 2004C	2040	3.8%	78,677	80,000
Illinois Health Facilities Authority (IHFA) – Series 1985	2021	5.5%	61,615	61,735
Unamortized premium			2,818	2,902
Total fixed rate			<u>565,490</u>	<u>571,442</u>
Variable rate:				
Illinois Student Assistance Commission (ISAC)	2006	5.0%	66,504	86,520
IEFA:				
Series 1985 NORC	2007	3.6%	10	71
Pooled financing program	2011	3.5%	7,543	7,543
Series 1998B	2026	3.1%	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	3.8%	72,265	72,265
Series 2003B	2034	3.7%	49,076	50,000
IFA – Series 2004B	2035	3.7%	100,000	100,000
Bank line of credit (\$65,000 available)	2006	5.2%	53,000	64,800
Total variable rate			<u>538,488</u>	<u>571,289</u>
Total University			<u>1,103,978</u>	<u>1,142,731</u>
Hospitals:				
Fixed rate:				
IHFA:				
Series 2001 Serial bond	2024	5.1%	35,605	36,725
Series 2001 Term bond	2032	5.0%	28,100	28,100
Series 2001 Term bond	2037	5.1%	24,065	24,065
Series 2003 Serial bond	2015	4.0 – 5.0%	55,840	60,740
Unamortized premium			2,734	3,155
Total fixed rate			<u>146,344</u>	<u>152,785</u>
Variable rate:				
IHFA:				
Series 1994C	2027	4.0%	55,400	55,400
Series 1998	2027	4.0%	112,900	114,000
IEFA pooled financing program	2029	3.5%	56,866	27,866
Bank line of credit (\$15,000 available)			—	—
Total variable rate			<u>225,166</u>	<u>197,266</u>
Total Hospitals			<u>371,510</u>	<u>350,051</u>
Total notes and bonds payable			<u>\$ 1,475,488</u>	<u>1,492,782</u>

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

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(In thousands of dollars)

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, 2006, the fair value of the interest rate swap agreement is an accrued asset of \$1,315. At June 30, 2005, the fair value of the agreement is an accrued liability of \$7,555. 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, 2006 and 2005, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$79,700 and \$81,750, respectively.

Principal payments required for University notes and bonds in each of the five years ending June 30, 2007 through 2011 are approximately \$12,821; \$11,507; \$11,434; \$13,028; and \$13,691, respectively.

Principal payments required in each of the five years ending June 30, 2007 through 2011 for the Hospitals' notes and bonds are approximately \$7,390; \$8,535; \$8,845; \$8,615; and \$8,965, respectively.

Included in the University's and Hospitals' notes and bonds payable are \$538,488 and \$225,166, respectively, of variable rate notes and bonds maturing through fiscal year 2037. In the event the University's and Hospitals' remarketing agents are unable to remarket the notes and bonds, they become a demand note and require immediate payment.

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2006 and 2005, based on quoted market prices for the same or similar issues.

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

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#### **(8) 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, 2006. In addition, at June 30, 2006, the University had approximately \$7,950 of assets held by trustees for debt service. ISAC bonds payable are fully collateralized by student loans receivable that are fully guaranteed by the federal government.

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

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

#### **(9) 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, 2006 and 2005, investment securities with an aggregate market value of \$628,242 and \$715,708, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of \$539,719 and \$571,734 and noncash collateral of \$98,993 and \$160,618, at June 30, 2006 and 2005, respectively. Cash collateral is reported as both an asset and liability of the University.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

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**(10) Pledges**

Pledges receivable at June 30, 2006 and 2005 are shown below:

	<b>2006</b>		<b>2005</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Unconditional promises expected to be collected in:				
Less than one year	\$ 86,060	11,438	70,293	9,455
One year to five years	138,951	20,085	126,421	8,810
More than five years	17,034	—	13,534	—
	<u>242,045</u>	<u>31,523</u>	<u>210,248</u>	<u>18,265</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(57,496)</u>	<u>(4,377)</u>	<u>(46,260)</u>	<u>(480)</u>
Total	<u>\$ 184,549</u>	<u>27,146</u>	<u>163,988</u>	<u>17,785</u>

**(11) Self-insurance Liability**

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the years ended June 30, 2006 and 2005 was \$15,000 per claim and unlimited in annual aggregate. Claims in excess of \$15,000 are subject to an additional self-insurance retention limited to \$10,000 per claim and \$10,000 in annual aggregate. The Hospitals are included under this insurance program and are charged for their portion of self-insurance costs. The University and Hospitals also maintain a self-insurance program for workers' compensation and certain other liability claims.

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

The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately \$41,000 higher than the amount recorded in the consolidated financial statements at June 30, 2006. The interest rate assumed in determining the present value was 6.25%.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

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The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2006 and 2005 is presented below:

	<b>2006</b>		<b>2005</b>	
	<u>University</u>	<u>Hospitals</u>	<u>University</u>	<u>Hospitals</u>
Medical malpractice	\$ 162,547	—	154,907	—
Workers' compensation	3,624	6,934	3,171	7,238
Other	4,429	—	3,933	—
Total	<u>\$ 170,600</u>	<u>6,934</u>	<u>162,011</u>	<u>7,238</u>

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

Substantially all personnel of the University participate in either the defined contribution pension plan for academic staff or the defined benefit and contribution pension plans for nonacademic personnel. The majority of Hospitals employees participate in the University's pension plan for nonacademic employees. The University and Hospitals 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 Hospitals 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. All Medicare eligible tenured faculty who elect to participate in the University Faculty Retirement Incentive Program receive supplemental health insurance at no cost for themselves and their spouses. All other academic and nonacademic employees are entitled to supplemental health insurance coverage subject to deductibles, copayment provisions, and other limitations.

## THE UNIVERSITY OF CHICAGO

### Notes to Consolidated Financial Statements

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

	<b>Defined benefit pension plan</b>		<b>Postretirement health care benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 455,920	345,322	112,975	104,723
Service cost	31,176	21,108	5,175	4,103
Interest cost	22,369	21,068	5,532	6,421
Amendments to the plan	—	910	—	—
Benefits paid	(25,104)	(23,186)	(4,344)	(4,914)
Actuarial (gain) loss, net	(80,590)	90,698	(18,455)	2,642
Benefit obligation at end of year	<u>\$ 403,771</u>	<u>455,920</u>	<u>100,883</u>	<u>112,975</u>
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	\$ 304,642	291,720	30,961	22,107
Actual return on plan assets	35,460	22,108	1,303	2,095
Employer contributions	10,000	14,000	—	11,673
Benefits paid	(25,104)	(23,186)	(4,344)	(4,914)
Fair value of plan assets at end of year	<u>\$ 324,998</u>	<u>304,642</u>	<u>27,920</u>	<u>30,961</u>
Reconciliation of funded status:				
Funded status	\$ (78,773)	(151,278)	(72,963)	(82,014)
Unrecognized actuarial loss	84,673	187,634	71,958	94,277
Unrecognized transition obligation	—	—	5,596	6,396
Unrecognized prior service cost (benefit)	8,584	9,622	(22,316)	(24,613)
Net amount recognized	<u>\$ 14,484</u>	<u>45,978</u>	<u>(17,725)</u>	<u>(5,954)</u>
Amounts recognized in consolidated financial statements:				
Prepaid (accrued) benefit cost	\$ 14,484	(34,076)	(17,725)	(5,954)
Intangible asset	—	9,622	—	—
Minimum pension liability adjustment	—	70,432	—	—
Net amount recognized	<u>\$ 14,484</u>	<u>45,978</u>	<u>(17,725)</u>	<u>(5,954)</u>

The accumulated benefit obligation (ABO) for the defined benefit pension plan was \$324,333 and \$338,718 at June 30, 2006 and 2005, respectively.

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At June 30, 2005, the defined benefit pension plan ABO exceeded plan assets thus creating an unfunded ABO. This situation required the recording of a minimum pension liability adjustment of \$70,432, which is reported as a non-operating change in unrestricted net assets in the consolidated statement of activities in fiscal 2005. 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 minimum pension liability adjustment recorded in fiscal 2005, which is reported as a non-operating change in unrestricted net assets in the consolidated statements of activities in fiscal 2006.

***Components of Net Periodic Benefit Cost***

	Defined benefit pension plan		Postretirement health care benefits	
	2006	2005	2006	2005
Service cost	\$ 31,176	21,108	5,175	4,103
Interest cost	22,369	21,068	5,532	6,421
Expected return on plan assets	(23,572)	(24,872)	(2,012)	(1,658)
Amortization of prior service cost (benefit)	1,038	2,426	(2,298)	(2,298)
Amortization of transition obligation	—	—	800	800
Amortization of actuarial loss	10,484	2,348	4,574	3,500
Net periodic benefit cost	\$ 41,495	22,078	11,771	10,868
Amounts included in the consolidated statements of activities:				
University	\$ 36,495	15,078	11,771	10,868
Hospitals	5,000	7,000	—	—
Total	\$ 41,495	22,078	11,771	10,868

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$31,088 in fiscal 2006 and \$26,532 in fiscal 2005 for the University and \$6,100 in fiscal 2006 and \$5,100 in fiscal 2005 for the Hospitals.

**THE UNIVERSITY OF CHICAGO**

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*Actuarial Assumptions*

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

	Defined benefit pension plan		Postretirement health care benefits	
	2006	2005	2006	2005
Discount rate	6.4%	5.0%	6.4%	5.0%
Expected return on plan assets	8.0	8.0	6.5	6.5
Rate of compensation increase	4.2	4.2	—	—
Health care cost trend rates:				
Next two fiscal years	—	—	9.0-10.0	9.0 - 10.0
Next seven fiscal years	—	—	5.0-8.0	5.0 - 8.0
Thereafter	—	—	5.0	5.0

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

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

	2006	2005
Effect on total service cost and interest cost:		
One percentage point increase	\$ 2,330	2,295
One-percentage point decrease	(1,749)	(1,758)
Effect on year-end postretirement benefit obligation:		
One-percentage point increase	16,397	17,736
One percentage point decrease	(13,281)	(13,974)

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***Plan Assets***

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

	Defined benefit pension plan		Postretirement health care benefits	
	2006	2005	2006	2005
Domestic public equities	66 %	66 %	53 %	52 %
International public equities	20	20	—	—
Fixed income	14	14	47	48
	<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 postretirement health care benefit plan are managed by the University and have a target asset allocation of 50% domestic public equities and 50% fixed income securities. Typical health plans have high and variable cash needs. The asset allocation targets reflect the assumption that cash flow out of plan assets is not expected in the short-term.

***Contributions***

The University expects to make no contribution to its postretirement health care plan and no contribution to its defined benefit pension plan in fiscal 2007.

***Estimated Future Benefits Payments***

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

Fiscal year	Defined benefit pension plan	Postretirement health care benefits
2007	\$ 19,190	3,799
2008	19,083	4,201
2009	20,135	4,561
2010	21,328	4,848
2011	22,458	5,227
2012-2016	139,082	31,147

**THE UNIVERSITY OF CHICAGO**

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***Prescription Drug Act***

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement health care plan currently meets Medicare's criteria for the tax-free subsidy because the University's plan provides for a higher level of reimbursement than Medicare. The University has recognized the effect of this subsidy in the calculation of its post-retirement benefit obligation, the impact of which is to reduce the benefit obligation by \$37,737 and \$36,076 at June 30, 2006 and 2005, respectively.

***Curtailed Pension Plan***

The Hospitals 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, 2006 and 2005, 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 \$7,607 and \$(8,471) at June 30, 2006 and 2005, respectively.

**THE UNIVERSITY OF CHICAGO**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(In thousands of dollars)

**(13) Functional Classification of Expenses**

Expenses by functional classification for the years ended June 30, 2006 and 2005 are shown below:

	<b>2006</b>	<b>2005</b>
University:		
Academic and research:		
Instruction	\$ 599,662	547,553
Research	217,316	212,580
Auxiliary enterprises	110,854	104,211
Library	17,761	16,071
Student services	39,044	32,808
Operation and maintenance of physical plant	94,117	83,759
Depreciation	78,447	71,101
Interest on notes and bonds	32,793	25,894
Total academic and research	1,189,994	1,093,977
Administration:		
Institutional support	116,759	97,171
Informational services	50,221	45,604
Development	33,470	26,306
Operation and maintenance of physical plant	4,168	3,974
Depreciation	6,098	5,973
Interest on notes and bonds	1,561	1,198
Total administration	212,277	180,226
Total University	1,402,271	1,274,203
Hospitals:		
Hospital services	827,225	747,808
Total	\$ 2,229,496	2,022,011

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, 2006 and 2005

(In thousands of dollars)

#### **(14) Affiliated Organizations**

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's board of trustees are faculty members or officers of the University. Program related revenue for the years ended December 31, 2005 and 2004 was \$97,375 and \$97,339 respectively. Unrestricted net assets at December 31, 2005 and 2004 were \$13,079 and \$10,190 respectively. In addition, the University has guaranteed \$2,271 of NORC's debt. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

The University operates Argonne National Laboratory under a contract with the U.S. Department of Energy, which provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The expenditures under this contract and the related reimbursements of \$482,220 in fiscal year 2006 and \$517,495 in fiscal year 2005 are not included in the consolidated statements of activities. Also, net assets relating to Argonne National Laboratory are owned by the United States government and, therefore, are not included in the consolidated balance sheets.

#### **(15) 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, 2006

<b><u>Federal agency and pass-through entity</u></b>	<b><u>CFDA numbers</u></b>	<b><u>Direct awards</u></b>	<b><u>Pass-through awards</u></b>	<b><u>Total expenditures</u></b>
Major Program Student Financial Assistance Cluster:				
Department of Education				
Federal Supplemental Educational Opportunity Grants	84.007	\$ 807,062	\$ -	\$ 807,062
Federal Family Education Loans	84.032	83,282,680	-	83,282,680
Federal Work-Study Program	84.033	2,644,511	-	2,644,511
Federal Perkins Loan Program	84.038	7,199,325	-	7,199,325
Federal Pell Grant Program	84.063	1,369,996	-	1,369,996
Department of Education Total		<u>95,303,574</u>	<u>-</u>	<u>95,303,574</u>
Major Program Student Financial Assistance Cluster: Total				
		<u>95,303,574</u>	<u>-</u>	<u>95,303,574</u>
Research and Development Cluster:				
Department of Agriculture				
Grants for Agricultural Research Competitive Research Grants	10.206	316,903	-	316,903
Agricultural and Rural Economic Research	10.250	25,232	-	25,232
Forestry Research	10.652	-	32,066	32,066
University of Washington		-	32,066	32,066
Department of Agriculture Total		<u>342,135</u>	<u>32,066</u>	<u>374,201</u>
Department of Defense				
Basic and Applied Scientific Research	12.300	1,141,816	-	1,141,816
Princeton University		-	53,527	53,527
University of North Carolina		-	8,063	8,063
Military Medical Research and Development	12.420	1,326,055	-	1,326,055
Duke University		-	57,576	57,576
University of Southern California		-	529,982	529,982
Basic Scientific Research	12.431	859,730	-	859,730
Basic, Applied, and Advanced Research in Science and Engineering	12.630	987,651	-	987,651
Air Force Defense Research Sciences Program	12.800	45,563	-	45,563
Mathematical Sciences Grants Program	12.901	32,051	-	32,051
Research and Technology Development	12.910	739,384	-	739,384
Department of Defense				
Argonne National Laboratory	12.RD,00023-0008A	-	54,796	54,796
Henry M. Jackson Foundation	12.RD,111712	-	21,529	21,529
Direct	12.RD,DAMD17-03-1-00200	36,620	-	36,620
Southwest Oncology Group	12.RD,DAMD-17-97-1-7088	-	48,603	48,603
Wright State University	12.RD,MDA904-03-C-1788	-	75,747	75,747
Henry M. Jackson Foundation	12.RD,N66001-03-D-2501	-	19,417	19,417
Argonne National Laboratory	12.RD,OJ-00028-0015A	-	87,807	87,807
Direct	12.RD,W81XWH-04-1-0333	30,010	-	30,010
The Institute For Quality Management	12.RD,W9124Q-04-F-2159	-	222,600	222,600
Department of Defense Total		<u>5,198,880</u>	<u>1,179,647</u>	<u>6,378,527</u>
Department of Education				
Safe and Drug-Free Schools and Communities				
National Programs	84.184	44,920	-	44,920
Graduate Assistance in Areas of National Need	84.200	677,209	-	677,209
Education Research, Development and Dissemination	84.305	785,622	-	785,622
Department of Education	84.902	69,342	-	69,342
Department of Education Total		<u>1,577,093</u>	<u>-</u>	<u>1,577,093</u>
Department of Energy				
Office of Science Financial Assistance Program	81.049	3,487,127	-	3,487,127
Argonne National Laboratory		-	429,290	429,290
Brookhaven National Laboratory		-	114,012	114,012
Carnegie Institution of Washington		-	82,189	82,189
Fermi National Accelerator Laboratory		-	130,424	130,424
Smithsonian Institution		-	25,031	25,031
Defense Nuclear Nonproliferation Research	81.113	168,482	-	168,482
Department of Energy				
Argonne National Laboratory	81.RD,II-00322	-	53,866	53,866
Battelle Memorial Institute	81.RD,4000005731	-	4,453	4,453

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<u>Federal agency and pass-through entity</u>	<u>CFDA numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Argonne National Laboratory	81.RD,5J-00023-0001A	-	5,247	5,247
Argonne National Laboratory	81.RD,5J-00023-0003A	-	33,000	33,000
Argonne National Laboratory	81.RD,5J-00023-0004A	-	42,279	42,279
Lawrence-Livermore	81.RD,B523820	-	4,438,575	4,438,575
Berkeley National Laboratory	81.RD,DE-AC03-76SF00098	-	15,342	15,342
Oak Ridge National Laboratory	81.RD,DE-AC05-000R22725	-	29,119	29,119
Direct	81.RD,DE-FG02-04ER63786	612,029	-	612,029
Direct	81.RD,DE-FG02-05ER64086	117,728	-	117,728
Argonne National Laboratory	81.RD,OJ-00082-0004G	-	(2,854)	(2,854)
Argonne National Laboratory	81.RD,W-31-109-ENG-38	-	30,806	30,806
<b>Department of Energy Total</b>		<b>4,385,366</b>	<b>5,430,779</b>	<b>9,816,145</b>
<b>Department of Health and Human Services</b>				
Innovations in Applied Public Health Research	93.061	881,350	-	881,350
Maternal and Child Health Federal Consolidated Programs	93.110	155,181	-	155,181
Environmental Health	93.113			
Mayo Foundation		-	7,611	7,611
Biometry and Risk Estimation Health Risks from Environmental Exposures	93.115			
New York University		-	2,409	2,409
Rush-Presbyterian-St. Luke's Medical Center		-	14,502	14,502
Oral Diseases and Disorders Research	93.121	1,044,557	-	1,044,557
Grants to Increase Organ Donations	93.134			
National Kidney Foundation of Illinois		-	(3,298)	(3,298)
Human Genome Research	93.172	1,010,213	-	1,010,213
Stanford University		-	28,467	28,467
Research Related to Deafness and Communication Disorders	93.173	2,258,072	-	2,258,072
University of Colorado		-	40,237	40,237
Research and Training in Complementary and Alternative Medicine	93.213	411,898	-	411,898
National Research Service Awards Health Services				
Research Training	93.225	278,816	-	278,816
Research on Healthcare Costs, Quality and Outcomes	93.226	1,688,580	-	1,688,580
Columbia University		-	15,215	15,215
National Center on Sleep Disorders Research	93.233	567,514	-	567,514
Free University of Brussels		-	57,546	57,546
Johns Hopkins University		-	126,991	126,991
Northwestern University		-	57,434	57,434
University of Pennsylvania		-	114,904	114,904
Mental Health Research Grants	93.242	7,578,395	-	7,578,395
Columbia University		-	138,303	138,303
Johns Hopkins University		-	14,439	14,439
Neuropsychiatric Research Institute		-	985	985
University of California Los Angeles		-	198,905	198,905
University of Florida		-	180,464	180,464
University of Iowa		-	71,692	71,692
University of Pittsburgh		-	45,058	45,058
University of Washington		-	9,085	9,085
Alcohol Research Programs	93.273	457,896	-	457,896
Evanston Northwestern Healthcare Research Inst		-	3,840	3,840
Northwestern University		-	(20,325)	(20,325)
NIH Drug Abuse National Research Service Awards for Research Training	93.278	466,961	-	466,961
Drug Abuse and Addiction Research Programs	93.279	2,934,789	-	2,934,789
State University of New York		-	7,095	7,095
University of Illinois at Chicago		-	63,754	63,754
Wayne State University		-	60,428	60,428
Yale University		-	74,016	74,016
Mental Health Research Career/Scientist Development Awards	93.281	1,431,650	-	1,431,650
Mental Health National Research Service Awards for Research Training	93.282	561,396	-	561,396

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<u>Federal agency and pass-through entity</u>	<u>CFDA numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Centers for Disease Control and Prevention				
Investigations and Technical Assistance	93.283	363,396	-	363,396
Association of American Medical Colleges		-	164,369	164,369
University of Illinois at Chicago		-	11,127	11,127
Discovery and Applied Research for Technological				
Innovations to Improve Human Health	93.286	2,590,911	-	2,590,911
University of Illinois at Chicago		-	3,486	3,486
University of Iowa		-	166,583	166,583
University of Minnesota		-	40,379	40,379
NIH Clinical Research	93.333	34,426	-	34,426
Nursing Research	93.361			
University of Illinois at Chicago		-	(1,229)	(1,229)
NIH Biomedical Technology	93.371	90,501	-	90,501
National Center for Research Resources	93.389	5,419,147	-	5,419,147
University of Texas		-	15,709	15,709
Academic Research Enhancement Award	93.390	331,724	-	331,724
Cancer Cause and Prevention Research	93.393	5,484,770	-	5,484,770
Aids Research Alliance Chicago		-	51,784	51,784
Northwestern University		-	435	435
Princeton University		-	82,787	82,787
Southwest Oncology Group		-	1,439	1,439
University of Alabama at Birmingham		-	135,205	135,205
University of Illinois at Chicago		-	45,355	45,355
University of Pennsylvania		-	222,688	222,688
City of Chicago Department of Health	93.393,#3496	-	2,494	2,494
Cancer Detection and Diagnosis Research	93.394	3,532,199	-	3,532,199
American College of Radiology		-	85,865	85,865
Saic-Frederick, Inc.		-	34,066	34,066
Cancer Treatment Research	93.395	13,165,211	-	13,165,211
American College of Radiology		-	12,662	12,662
Duke University		-	57,855	57,855
Gynecologic Oncology Group		-	(5,601)	(5,601)
Illinois Institute of Technology		-	42,833	42,833
Medical University of South Carolina		-	17,513	17,513
Saic-Frederick, Inc.		-	11,351	11,351
University of Alabama at Birmingham		-	249,886	249,886
University of California San Francisco		-	61,900	61,900
University of Illinois at Chicago		-	7,667	7,667
University of Michigan		-	5,244	5,244
University of Pittsburgh		-	13,598	13,598
University of Southern California		-	18,262	18,262
Washington University		-	420	420
Westat		-	21,000	21,000
Cancer Biology Research	93.396	7,556,351	-	7,556,351
Loyola University - Illinois		-	166,786	166,786
University of California San Francisco		-	172,868	172,868
Cancer Centers Support Grants	93.397	4,000,672	-	4,000,672
Northwestern University		-	37,304	37,304
University of Alabama at Birmingham		-	201,853	201,853
Cancer Research Manpower	93.398	1,404,942	-	1,404,942
Cancer Control	93.399	1,831,344	-	1,831,344
Georgetown University		-	253,175	253,175
Johns Hopkins University		-	331	331
Nat'l Surgical Adjuvant Breast And Bowel Project		-	5,389	5,389
University of Pennsylvania		-	17,583	17,583
Abandoned Infants	93.551	310,722	-	310,722
Social Services Research and Demonstration	93.647	488,944	-	488,944
Child Abuse and Neglect Discretionary Activities	93.670			
City of New York		-	165,549	165,549
NIH Cell Biology and Biophysics Research	93.821	995,791	-	995,791
Heart and Vascular Diseases Research	93.837	7,596,236	-	7,596,236
AJ Medical Devices, Inc.		-	15,535	15,535
Northwestern University		-	4,446	4,446
University of Illinois at Chicago		-	34,071	34,071
University of Pittsburgh		-	24,420	24,420
University of Utah		-	28,024	28,024

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<u>Federal agency and pass-through entity</u>	<u>CFDA numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
University of Wisconsin		-	23,688	23,688
Lung Diseases Research	93.838	7,935,856	-	7,935,856
Johns Hopkins University		-	469,571	469,571
Northwestern University		-	610	610
University of Wisconsin		-	435,285	435,285
Blood Diseases and Resources Research	93.839	569,701	-	569,701
Albert Einstein College of Medicine		-	340,748	340,748
Howard University		-	127,451	127,451
University of Illinois at Chicago		-	23,844	23,844
University of Miami		-	(33)	(33)
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	1,027,223	-	1,027,223
University of Rochester		-	33,826	33,826
Diabetes, Endocrinology and Metabolism Research	93.847	9,530,985	-	9,530,985
Chemical Diversity Labs		-	15,913	15,913
University of California San Francisco		-	176,201	176,201
Washington University		-	73,998	73,998
Digestive Diseases and Nutrition Research	93.848	7,061,431	-	7,061,431
Children'S Hospital, Boston		-	24,150	24,150
University of Pennsylvania		-	(5,419)	(5,419)
Kidney Diseases, Urology and Hematology Research	93.849	2,677,351	-	2,677,351
University of Michigan		-	98,688	98,688
Wake Forest University		-	646	646
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	9,945,620	-	9,945,620
Beth Israel Deaconess Medical Center, Inc.		-	55,715	55,715
Children's Hospital, Boston		-	132,960	132,960
Columbia University		-	5,420	5,420
Illinois Institute of Technology		-	109,836	109,836
Northern California Inst For Research & Education		-	6,252	6,252
Northwestern University		-	109,567	109,567
University of California San Diego		-	22,787	22,787
University of Pennsylvania		-	250,173	250,173
Allergy, Immunology and Transplantation Research	93.855	7,781,314	-	7,781,314
The Children's Hospital of Philadelphia		-	275	275
University of California San Francisco		-	116,952	116,952
University of Miami		-	132,141	132,141
Microbiology and Infectious Diseases Research	93.856	11,936,489	-	11,936,489
Children'S Memorial Hospital, Chicago		-	163,404	163,404
Fisher Bioservice		-	171,265	171,265
Ohio State University		-	56,494	56,494
Biomedical Research and Research Training	93.859	16,181,318	-	16,181,318
Biostructures, Inc.		-	333,090	333,090
Johns Hopkins University		-	70,767	70,767
Los Alamos National Laboratory		-	564,623	564,623
University of Massachusetts		-	71,661	71,661
NIH Genetics and Developmental Biology Research and Research Training	93.862	1,941,838	-	1,941,838
NIH Population Research	93.864	511,117	-	511,117
Child Health and Human Development				
Extramural Research	93.865	6,962,698	-	6,962,698
Johns Hopkins University		-	65,026	65,026
University of Kansas		-	31,082	31,082
University of Michigan		-	23,079	23,079
University of Washington		-	46,213	46,213
Yale University		-	51,512	51,512
Aging Research	93.866	6,835,105	-	6,835,105
National Bureau of Economic Research		-	682,221	682,221
National Opinion Research Center		-	355,759	355,759
Rutgers University		-	16,639	16,639
University of Illinois at Chicago		-	25,523	25,523
University of Pennsylvania		-	75,289	75,289
Vision Research	93.867	2,742,481	-	2,742,481
Medical Library Assistance	93.879	82,064	-	82,064
University of Illinois at Chicago		-	126,517	126,517

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<u>Federal agency and pass-through entity</u>	<u>CFDA numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Grants for Training in Primary Care Medicine and Dentistry	93.884	268,208	-	268,208
Resource and Manpower Development in the Environmental Health Sciences	93.894	1,374,036	-	1,374,036
NIH Center for Medical Rehabilitation Research University of Illinois at Chicago	93.929	-	(796)	(796)
HIV Prevention Activities Health Department Based City of Chicago Department of Health	93.940	-	50,114	50,114
HIV Demonstration, Research, Public and Professional Education Projects	93.941	161,294	-	161,294
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups Hektoen Institute For Medical Research	93.943	-	(15,905)	(15,905)
Assistance Programs for Chronic Disease Prevention and Control	93.945	-	-	-
City of Chicago Department of Health	93.945,U50/CCU522185-03	-	42,664	42,664
International Research and Research Training Department of Health and Human Services	93.989	237,447	-	237,447
University of Pittsburgh	93.RD	-	16,155	16,155
National Opinion Research Center	93.RD,02-0008	-	38,692	38,692
National Childhood Cancer Foundation	93.RD,11164/U10-CA98543	-	(903)	(903)
Booz Allen Hamilton, Inc.	93.RD,1435-04-04-CT73980	-	74,476	74,476
Social & Scientific Systems	93.RD,223-02-6003	-	84,020	84,020
Saic-Frederick, Inc.	93.RD,22SXS027	-	9,548	9,548
Saic-Frederick, Inc.	93.RD,22XS027	-	3,582	3,582
Urban Institute	93.RD,233-02-0059	-	120,035	120,035
Saic-Frederick, Inc.	93.RD,23XS027	-	20,220	20,220
Direct	93.RD,263-MD-312237	1	-	1
Direct	93.RD,263-MD-317164	3,912	-	3,912
University of California San Francisco	93.RD,3681SC A001	-	128,928	128,928
Booz Allen Hamilton, Inc.	93.RD,79581CBS10#3	-	7,242	7,242
Booz Allen Hamilton, Inc.	93.RD,79581CBS10#4	-	15,112	15,112
Booz Allen Hamilton, Inc.	93.RD,79581CBS10#5	-	79,176	79,176
Booz Allen Hamilton, Inc.	93.RD,7958ACBS10	-	361,542	361,542
Direct	93.RD,HHSN261200555009C	180,042	-	180,042
Direct	93.RD,HHSN261200622001C	96,643	-	96,643
Westat	93.RD,HHSN265200423601C	-	10,631	10,631
University of California San Francisco	93.RD,N01-AI-15416	-	4,592	4,592
Immune Tolerance Network	93.RD,N01-AI15476	-	63,891	63,891
Direct	93.RD,N01-AI-95380	260,449	-	260,449
Direct	93.RD,N01-CM17102-02	29,900	-	29,900
Direct	93.RD,N01-CM17102-03	931,481	-	931,481
Strang Cancer Prevention Center	93.RD,N01-CN-95015-MAO	-	1,256	1,256
Direct	93.RD,N01-CP01291	60,600	-	60,600
University of Washington	93.RD,N01-HC-95177	-	33,439	33,439
Direct	93.RD,N01-LM-3-3508	1,209,872	-	1,209,872
Duke University	93.RD,N01MN80008	-	(18,695)	(18,695)
Brown University	93.RD,N01-NS22345	-	9,002	9,002
Westat	93.RD,N02 CM9704	-	20,999	20,999
Direct	93.RD,NNSN266200400042C	4,075,898	-	4,075,898
Direct	93.RD,N01-AI95380	392	-	392
Hospital For Special Surgery	93.RD,R01-AR049772	-	15,307	15,307
Rehabilitation Institute Research Corporation	93.RD,R21-HD43271	-	(1,720)	(1,720)
Duke University	93.RD,U01 HL63747	-	16,674	16,674
Duke University	93.RD,U10-CA76008	-	14,000	14,000
Duke University	93.RD,U10-CA86004	-	(21,788)	(21,788)
<b>Department of Health and Human Services Total</b>		<b>179,537,321</b>	<b>10,907,122</b>	<b>190,444,443</b>
<b>Department of Justice</b>				
National Institute of Justice Research, Evaluation and Development Project Grants	16.560	70,510	-	70,510
Department of Justice				
University of California Berkeley	16.RD,2004-IJ-CX-0036	-	49,404	49,404
Urban Institute	16.RD,UI-07895-000-000	-	10,678	10,678
<b>Department of Justice Total</b>		<b>70,510</b>	<b>60,082</b>	<b>130,592</b>

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Department of Labor				
Department of Labor				
The Workforce Board of Northern Cook County	17.RD,82-0230127	-	(11,009)	(11,009)
Human Service Center	17.RD,E-9-4-2-0115	-	(2,034)	(2,034)
Department of Labor Total		-	(13,043)	(13,043)
Environmental Protection Agency (EPA)				
EPA Environmental Protection Consolidated Research	66.500	379,750	-	379,750
Science To Achieve Results (STAR) Fellowship Program	66.514	15,900	-	15,900
Environmental Protection Consolidated Grants				
Program Support	66.600	893,648	-	893,648
EPA Training and Fellowships for the Environmental				
Protection Agency	66.607	17,296	-	17,296
Environmental Education Grants	66.951	170,857	-	170,857
Environmental Protection Agency	66.RD			
Johns Hopkins University		-	190,177	190,177
Environmental Protection Agency Total		1,477,451	190,177	1,667,628
National Aeronautics and Space Administration				
Aerospace Education Services Program	43.001	2,498,774	-	2,498,774
Cornell University		-	88,802	88,802
Jet Propulsion Laboratory		-	53,474	53,474
Johns Hopkins University		-	1,735	1,735
Massachusetts Institute of Technology		-	107,200	107,200
Smithsonian Institution		-	34,857	34,857
Space Telescope Science Institute		-	193,412	193,412
University of Illinois at Champaign		-	50,188	50,188
University Space Research Association		-	843,675	843,675
National Aeronautics and Space Administration				
Space Telescope Science Institute	43.RD,HST-GO-09154.04-A	-	13	13
Space Telescope Science Institute	43.RD,HST-GO-09437.08-A	-	226	226
Space Telescope Science Institute	43.RD,HST-HF-01141.01-A	-	3,611	3,611
Jet Propulsion Laboratory	43.RD,JPL-961478	-	409	409
Jet Propulsion Laboratory	43.RD,JPL-P61170	-	159,398	159,398
Direct	43.RD,NAG5-10759	31,773	-	31,773
Direct	43.RD,NAG5-10831	(6,796)	-	(6,796)
Direct	43.RD,NAG5-12635	68,283	-	68,283
Direct	43.RD,NAG5-13133	118	-	118
Direct	43.RD,NAG5-13558	112	-	112
Direct	43.RD,NAG5-8539	2,959	-	2,959
Direct	43.RD,NCC5-653	61,799	-	61,799
University of Illinois at Champaign	43.RD,NNG05GE81H	-	96,775	96,775
University of Maryland	43.RD,NNJ05HE73G	-	95,555	95,555
National Aeronautics and Space Administration Total		2,657,022	1,729,330	4,386,352
National Endowment for the Humanities				
Promotion of the Humanities Division				
of Preservation and Access	45.149	168,648	-	168,648
University of Michigan		-	3,341	3,341
Promotion of the Humanities Research	45.161	(3,120)	-	(3,120)
National Endowment for the Humanities Total		165,528	3,341	168,869
National Science Foundation				
Engineering Grants	47.041	62,068	-	62,068
Northwestern University		-	37,311	37,311
University of Alaska Fairbanks		-	77,206	77,206
University of California Irvine		-	59,560	59,560
Mathematical and Physical Sciences	47.049	14,091,362	-	14,091,362
Columbia University		-	537,711	537,711
Fermi National Accelerator Laboratory		-	15,136	15,136
Harvard University		-	10,880	10,880
Illinois Institute of Technology		-	14,013	14,013
Johns Hopkins University		-	79,005	79,005
Smithsonian Institution		-	537,193	537,193

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University of California Santa Cruz		-	55,385	55,385
University of Florida		-	479,070	479,070
University of Illinois at Champaign		-	378,987	378,987
University of Notre Dame		-	327,213	327,213
University of Southern California		-	679,329	679,329
University of Utah		-	47,065	47,065
University of Wisconsin		-	738,258	738,258
Geosciences	47.050	3,182,383	-	3,182,383
Massachusetts Institute of Technology		-	88,248	88,248
State University of New York		-	157,155	157,155
Computer and Information Science and Engineering	47.070	8,648,263	-	8,648,263
Depaul University		-	7,583	7,583
University of Delaware		-	35,846	35,846
University of Florida		-	564,713	564,713
University of Illinois at Champaign		-	177,960	177,960
University of Illinois at Chicago		-	20,870	20,870
University of Texas		-	(10,331)	(10,331)
Virginia Tech		-	122,220	122,220
Wright State University		-	2,235	2,235
Biological Sciences	47.074	2,530,651	-	2,530,651
University of California San Diego		-	230,244	230,244
University of California Santa Barbara		-	37,825	37,825
University of Southern California		-	255,404	255,404
Social, Behavioral, and Economic Sciences	47.075	1,518,394	-	1,518,394
International Computer Science Institute		-	385	385
Northwestern University		-	91,901	91,901
State University of New York		-	24,777	24,777
Education and Human Resources	47.076	566,484	-	566,484
National Academy of Sciences		-	32,117	32,117
Northwestern University		-	54,618	54,618
University of Arizona		-	(2,899)	(2,899)
University of Missouri - Columbia		-	76,655	76,655
Polar Programs	47.078	7,847,944	-	7,847,944
Northwestern University		-	21,549	21,549
International Science and Engineering (OISE)	47.079	16,738	-	16,738
National Science Foundation Total		38,464,287	6,062,397	44,526,684
Veterans Administration				
Veterans Administration	64.RD	28,404	-	28,404
Veterans Administration Total		28,404	-	28,404
Research and Development Cluster: Total		233,903,997	25,581,898	259,485,895
TRIO Cluster				
Department of Education				
TRIO Upward Bound	84.047	800,169	-	800,169
TRIO McNair Post-Baccalaureate Achievement	84.217	209,899	-	209,899
Department of Education Total		1,010,068	-	1,010,068
TRIO Cluster Total		1,010,068	-	1,010,068
Other Programs:				
Corporation for National and Community Service				
AmeriCorps				
Illinois Department of Human Services	94.006,411G4827000	-	(344)	(344)
Illinois Department of Human Services	94.006,511G4827000	-	33,639	33,639
Corporation for National and Community Service Total		-	33,295	33,295
Department of Agriculture				
Agricultural and Rural Economic Research	10.250	36,767	-	36,767
Johns Hopkins University		-	7,111	7,111
Department of Agriculture Total		36,767	7,111	43,878
Department of Defense				
Military Medical Research and Development	12.420	65,792	-	65,792

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2006

<u>Federal agency and pass-through entity</u>	<u>CFDA numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Department of Defense Total		65,792	-	65,792
Department of Education				
National Resource Centers and Fellowships Program for				
Language and Area or Language and Int'l Studies:				
University of Illinois at Champaign	84.015	2,174,336	-	2,174,336
University of Illinois at Chicago		-	314,230	314,230
Undergraduate International Studies and Foreign				
Language Programs	84.016	17	-	17
International Research and Studies	84.017	202,357	-	202,357
Overseas Faculty Research Abroad	84.019	1,858	-	1,858
Overseas Doctoral Dissertation	84.022	663,395	-	663,395
University of Illinois at Champaign		-	931	931
Javits Fellowships	84.170	592,389	-	592,389
Language Resource Centers	84.229	384,186	-	384,186
Education Research, Development and Dissemination	84.305	288,388	-	288,388
Gaining Early Awareness and Readiness for Undergraduate				
Programs Northeastern Illinois University	84.334	-	310,111	310,111
International Education Technological Innovation and				
Cooperation for Foreign Information Access	84.337	270,131	-	270,131
Mathematics and Science Partnerships	84.366			
Illinois State Board of Education		-	175,627	175,627
Improving Teacher Quality State Grants	84.367			
Illinois Board of Higher Education		-	129,606	129,606
Department of Education Total		4,577,057	943,782	5,520,839
Department of Energy				
Office of Science Financial Assistance Program	81.049			
Fermi National Accelerator Laboratory		-	117,930	117,930
Krell Institute		-	(9,891)	(9,891)
Department of Energy Total		-	108,039	108,039
Department of Health and Human Services				
Research on Healthcare Costs, Quality and Outcomes	93.226	31,283	-	31,283
Mental Health Research Grants	93.242	71,563	-	71,563
Substance Abuse and Mental Health Services Projects				
of Regional and National Significance	93.243			
American Psychological Association		-	14,820	14,820
Immunization Grants	93.268			
City of Chicago Department of Health		-	127,827	127,827
NIH Clinical Research	93.333	130,350	-	130,350
Cancer Treatment Research	93.395			
Gynecologic Oncology Group		-	55,148	55,148
National Childhood Cancer Foundation		-	31,071	31,071
Foster Care Title IV-E	93.658			
University of Wisconsin		-	21,712	21,712
University of Wisconsin - Milwaukee		-	55,867	55,867
Diabetes, Endocrinology and Metabolism Research	93.847	179,358	-	179,358
Microbiology and Infectious Diseases Research	93.856	1,172,627	-	1,172,627
Biomedical Research and Research Training	93.859	180,639	-	180,639
Child Health and Human Development Extramural	93.865	16,137	-	16,137
Research University of California San Francisco		-	10,115	10,115
Health Care and Other Facilities	93.887	(65)	-	(65)
HIV Emergency Relief Project Grants	93.914			
Aids Foundation of Chicago		-	105,592	105,592
Aids Foundation of Chicago	93.914,#40	-	254	254
City of Chicago Department of Health	93.914,H89HA00008-15-00	-	384,225	384,225
City of Chicago Department of Health	93.914,PO# 5259	-	(68,876)	(68,876)
Grants to Provide Outpatient Early Intervention Services:				
with Respect to HIV Disease	93.918	(6,645)	-	(6,645)
Healthy Start Initiative	93.926			
Illinois Department of Human Services	93.926,11G5514000	-	650	650
Illinois Department of Human Services	93.926,11G6514000	-	24,223	24,223
HIV Prevention Activities Health Department Based	93.940			
City of Chicago Department of Health	93.940,U62/CCU523481	-	(1,333)	(1,333)

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2006

<u>Federal agency and pass-through entity</u>	<u>CFDA numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Maternal and Child Health Services Block Grant to the States	93.994			
Illinois Department of Human Services	93.994,11G6514001	-	129,769	129,769
Illinois Department of Public Health	93.994,53789001	-	382,727	382,727
Department of Health and Human Services				
Illinois Department of Children And Family Service	93.UNK,108310-00	-	1,660	1,660
City of Chicago Department of Health	93.UNK,P.O.#1228	-	(43,808)	(43,808)
City of Chicago Department of Health	93.UNK,P.O.4294/1073109	-	3,803	3,803
City of Chicago Department of Health	93.UNK,P.O.6926	-	88,744	88,744
Department of Health and Human Services Total		1,775,247	1,324,190	3,099,437
Department of Housing and Urban Development				
Doctoral Dissertation Research Grants	14.516	6,334	-	6,334
Early Doctoral Student Research Grants	14.517	7,923	-	7,923
Department of Housing and Urban Development Total		14,257	-	14,257
Department of Justice				
Criminal Justice Research and Development				
Graduate Research Fellowships	16.562	20,000	-	20,000
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580			
Illinois Criminal Justice Information Authority		-	75,941	75,941
Department of Justice Total		20,000	75,941	95,941
Department of State				
Department of State				
American Research Center In Egypt	19.UNK	-	6,817	6,817
Direct	19.UNK,263-G-00-05-00005-00	274,271	-	274,271
American Research Center In Egypt	19.UNK,263G00308900	-	25,994	25,994
American Research Center In Egypt	19.UNK,263-G-00-93-00089-00	-	78,031	78,031
Assn Liaison office For Univ Cooperation In Dvlpm	19.UNK,HNE-A-00-97-000-59-0	-	27,758	27,758
Department of State Total		274,271	138,600	412,871
Environmental Protection Agency				
Science To Achieve Results (STAR) Fellowship Program	66.514	27,805	-	27,805
Environmental Protection Agency Total		27,805	-	27,805
Institute of Museum Services				
Museums for America	45.301	116,583	-	116,583
Conservation Project Support	45.303	39,973	-	39,973
National Leadership Grants	45.312	39,643	-	39,643
Institute of Museum Services Total		196,199	-	196,199
National Aeronautics and Space Administration				
Aerospace Education Services Program	43.001			
Depaul University		-	5,000	5,000
Space Telescope Science Institute		-	128,108	128,108
University of Wisconsin - Green Bay		-	2,235	2,235
National Aeronautics and Space Administration Total		-	135,343	135,343
National Endowment for the Arts				
Promotion of the Arts Grants to Organizations and Individuals	45.024	27,189	-	27,189
National Endowment for the Arts Total		27,189	-	27,189
National Endowment for the Humanities				
Promotion of the Humanities Federal/State Partnership				
Illinois Humanities Council	45.129	-	(100)	(100)
Promotion of the Humanities Division of Preservation and Access	45.149	72,228	-	72,228
Promotion of the Humanities Professional Development	45.163	102,749	-	102,749
National Endowment for the Humanities Total		174,977	(100)	174,877

**THE UNIVERSITY OF CHICAGO**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2006

<u>Federal agency and pass-through entity</u>	<u>CFDA numbers</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
National Science Foundation				
Mathematical and Physical Sciences	47.049	1,882,277	-	1,882,277
University of Notre Dame		-	13,764	13,764
Computer and Information Science and Engineering	47.070	25,105	-	25,105
Biological Sciences	47.074	8,300	-	8,300
Social, Behavioral, and Economic Sciences	47.075	92,546	-	92,546
Education and Human Resources	47.076	1,766,000	-	1,766,000
University of Missouri - Columbia		-	66,531	66,531
National Science Foundation Total		3,774,228	80,295	3,854,523
Veterans Administration				
Veterans Administration				
Direct	64.UNK	(2,789)	-	(2,789)
Direct	64.UNK,578/151	16,666	-	16,666
Direct	64.UNK,V598P-4345	40	-	40
Veterans Administration Total		13,917	-	13,917
Other Programs: Total		10,977,706	2,846,496	13,824,202
Total Expenditures		\$ 341,195,345	\$ 28,428,394	\$ 369,623,739

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, 2006

#### (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, 2006. 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 Hospitals, if any. The Schedule summarizes expenditures by:

- Major and nonmajor programs;
- 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 Program*

The University's fiscal year 2006 major program is the student financial assistance program cluster. This 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.

#### *Nonmajor Programs*

The University's fiscal year 2006 nonmajor programs include the research and development program cluster, training other than the training included in the research and development cluster, public service, construction, 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 construction program includes awards for constructing research facilities. 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, 2006

***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 2006 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, 2006 were as follows:

Research and development	\$	65,483,735
Other		<u>572,314</u>
Total	\$	<u><u>66,056,049</u></u>

**THE UNIVERSITY OF CHICAGO**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

**(3) Summary of Subrecipient Payments**

Subrecipient payments charged to federal awards for the year ended June 30, 2006 were as follows:

Research and development:	
Department of Agriculture	\$ 14,840
Department of Defense	1,223,565
Department of Education	309,038
Department of Energy	79,676
Department of Health and Human Services	18,811,824
Environmental Protection Agency	82,717
National Aeronautics and Space Administration	7,933
National Science Foundation	2,656,970
	<hr/>
	23,186,563
	<hr/>
Other:	
Department of Agriculture	29,273
Department of Education	536,031
National Endowment for the Humanities	55,764
National Science Foundation	62,944
	<hr/>
	684,012
	<hr/>
Total	\$ <u><u>23,870,575</u></u>

**(4) Federal Loan Programs**

Loans made to University students under the various federal loan programs for the year ended June 30, 2006 are summarized below:

University federal loans:	
Stafford	\$ 54,455,100
Perkins	7,199,325
	<hr/>
Total University federal loans	61,654,425
	<hr/>
Non-University federal loans:	
Stafford	18,266,107
Parent Loans for Undergraduate Students	10,561,473
	<hr/>
Total non-University federal loans	28,827,580
	<hr/>
Total	\$ <u><u>90,482,005</u></u>

**THE UNIVERSITY OF CHICAGO**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

University federal loans outstanding at June 30, 2006 are shown below:

University federal loans:		
Stafford	\$	64,650,125
Perkins		33,806,308
Health professions		646,312
Loans to disadvantaged students		<u>26,816</u>
Total	\$	<u><u>99,129,561</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**  
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**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, 2006 and have issued our report thereon dated September 19, 2006. 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 Hospitals. 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 audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's consolidated 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 audits 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*.



This report is intended solely for the information and use of the Board of Trustees and management of the University, 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 19, 2006



**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* that are applicable to its major federal program for the year ended June 30, 2006, except those requirements discussed in the fourth following paragraph. The University's major federal program is 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 its major federal program 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 accounts of The University of Chicago Hospitals (the Hospitals), which received federal awards that are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2006. Our audit, described below, did not include the operations of the Hospitals because the Hospitals are audited by other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial 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 referred to above 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 above that are applicable to its major federal program for the year ended June 30, 2006, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that 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 finding 06-01.



We did not audit the University's compliance with the requirements governing the billing, collection, and due diligence functions of the Federal Perkins Loan Program. 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 performs for the University was examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' report, we have determined that all of the compliance requirements included in the Circular A-133 *Compliance Supplement* that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

### **Internal Control over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Requirements governing billing, collection, and due diligence functions of the Federal Perkins Loan Program are performed by Campus Partners. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. A copy of the service organization accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at Campus Partners.

We noted a matter involving internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major program in accordance with the applicable laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control over compliance that might be reportable conditions and, accordingly, would not necessarily disclose all



reportable conditions that are also material weaknesses. However, we believe the reportable condition describes above is not a material weakness.

This report is intended solely for the information and use of the Board of Trustees and management of the University, 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 19, 2007

**THE UNIVERSITY OF CHICAGO**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2006

**(1) Summary of Auditors' Results**

- (a) The type of report issued on the consolidated financial statements: **Unqualified opinion**
- (b) Reportable conditions 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) Reportable conditions in internal control over major programs: **Yes**  
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 program: **Student Financial Assistance Cluster**
- (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, 2006

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

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Student Financial Assistance Cluster – Federal Family Education Program (FFEL)

**CFDA # and Program Expenditures:** 84.032 (\$83,282,680)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 06-01** Student Status Changes

*Criteria*

In accordance with 34 CFR section 682.10, the University is required to notify the National Student Loan Data System (NSLDS) of changes in a student's status within 30 days of discovering the change, unless the University expects to complete its next Roster File within 60 days.

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing a reporting schedule to ensure student status change submissions comply with federally prescribed timeframes.

*Condition and Cause*

During our testwork over 30 FFEL borrowers that graduated, withdrew, or dropped out during the fiscal year, we noted three students who withdrew after the end of a term for which student status changes were never reported to NSLDS. Upon further investigation, University personnel determined that all status changes occurring after the end of a term were not identified on the status change reports submitted each quarter due to the manner in which the status change reports were generated.

*Effect*

Failure to accurately report student status changes to NSLDS in a timely manner may result in FFEL borrowers not entering repayment status at the appropriate time.

*Recommendation*

We recommend the University revise its procedures for identifying student status changes to ensure status changes occurring after the end of a term are properly identified and submitted to NSLDS within the required timeframes.

**THE UNIVERSITY OF CHICAGO**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

*Views of Responsible Officials*

The University agrees with the Auditor's finding and recommendation. Upon investigating the finding, the University discovered that a Registrar Office report used to report status changes to NSLDS was omitting status changes occurring after the end of a quarterly term. The University has implemented procedures to identify those status changes at issue and, effective February 1, 2007, they are being reported correctly to NSLDS.