

THE UNIVERSITY OF CHICAGO

OMB Circular A-133 Audit Report

Year ended June 30, 2008

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO

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

Independent Auditors' Report

The Board of Trustees
The University of Chicago:

We have audited the accompanying consolidated balance sheets of The University of Chicago (the University) as of June 30, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The University of Chicago Medical Center (the Medical Center), which statements reflect total assets constituting 15% and 15% and total revenues constituting 43% and 32% of the related consolidated totals in 2008 and 2007, respectively. Our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



Our 2008 audit was 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, 2008 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 2008 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic consolidated financial statements taken as a whole.

KPMG LLP

September 26, 2008

THE UNIVERSITY OF CHICAGO

Consolidated Balance Sheets

June 30, 2008 and 2007

(In thousands of dollars)

Assets	2008	2007
Cash and cash equivalents	\$ 99,615	88,056
Notes and accounts receivable	376,887	324,684
Collateral held for securities loaned	306,223	494,429
Prepaid expenses and other assets	83,777	120,240
Pledges receivable	281,698	211,357
Investments	7,176,447	7,256,934
Land, buildings, equipment, and books	2,374,574	1,998,611
Total assets	\$ 10,699,221	10,494,311
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 518,298	444,023
Deferred revenue	82,079	81,358
Payable under securities loan agreements	306,223	494,429
Assets held in custody for others	47,908	35,626
Self-insurance liability	201,748	194,916
Pension and other postretirement benefit obligations	220,173	184,494
Asset retirement obligation	66,254	66,751
Notes and bonds payable	1,937,130	1,789,581
Refundable U.S. government student loan funds	37,418	37,300
Total liabilities	3,417,231	3,328,478
Net assets:		
Unrestricted	5,636,216	5,685,872
Temporarily restricted	475,752	424,404
Permanently restricted	1,170,022	1,055,557
Total net assets	7,281,990	7,165,833
Total liabilities and net assets	\$ 10,699,221	10,494,311

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2008 and 2007

(In thousands of dollars)

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Operating::		
Revenue:		
Tuition and fees – gross	\$ 513,015	479,612
Less:		
Undergraduate student aid	(62,345)	(56,905)
Graduate student aid	(156,765)	(142,935)
Tuition and fees – net	<u>293,905</u>	<u>279,772</u>
Government grants and contracts	335,834	327,415
Private gifts, grants, and contracts	134,343	119,812
Endowment payout	230,976	200,980
Earnings on other investments	27,965	28,131
Patient care	1,221,375	1,206,988
Auxiliaries	194,037	185,394
Other income	189,193	172,521
Net assets released from restrictions	54,123	102,916
Total operating revenue	<u>2,681,751</u>	<u>2,623,929</u>
Expenses:		
Compensation:		
Academic salaries	392,667	370,606
Staff salaries	763,474	717,008
Benefits	294,204	274,409
Total compensation	<u>1,450,345</u>	<u>1,362,023</u>
Other operating expenses:		
Utilities, alterations, and repairs	78,243	70,758
Depreciation	151,750	140,353
Interest	62,900	60,119
Supplies, services, and other	796,260	789,647
Insurance	53,530	55,426
Total other operating expenses	<u>1,142,683</u>	<u>1,116,303</u>
Total operating expenses	<u>2,593,028</u>	<u>2,478,326</u>
Excess of operating revenue over expenses	<u>88,723</u>	<u>145,603</u>

THE UNIVERSITY OF CHICAGO

Consolidated Statements of Activities

June 30, 2008 and 2007

(In thousands of dollars)

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Nonoperating:		
Investment gains (losses)	\$ (85,850)	910,703
Postretirement benefit changes other than net periodic benefit cost	(16,545)	—
Minimum pension liability adjustment	—	2,210
Loss on debt refinancing	(4,247)	—
Other, net	(31,737)	52,543
Effect of a change in accounting for pension and other postretirement benefit plans	—	(117,255)
Cumulative effect of a change in accounting for correction of prior year misstatements	—	88,083
	<u>(138,379)</u>	<u>936,284</u>
Change in unrestricted net assets from nonoperating activities		
Increase (decrease) in unrestricted net assets	<u>(49,656)</u>	<u>1,081,887</u>
Changes in temporarily restricted net assets:		
Private gifts	129,509	149,442
Endowment payout	153	171
Investment gains	1,174	911
Other, net	(25,365)	(45,722)
Net assets released from restrictions	(54,123)	(102,916)
	<u>51,348</u>	<u>1,886</u>
Increase in temporarily restricted net assets		
Changes in permanently restricted net assets:		
Private gifts	107,508	88,710
Endowment payout	1,979	1,813
Investment gains (losses)	(417)	6,320
Other, net	5,395	19,281
	<u>114,465</u>	<u>116,124</u>
Increase in permanently restricted net assets		
Increase in net assets	116,157	1,199,897
Net assets at beginning of year	<u>7,165,833</u>	<u>5,965,936</u>
Net assets at end of year	<u>\$ 7,281,990</u>	<u>7,165,833</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO
Consolidated Statements of Cash Flows
Years ended June 30, 2008 and 2007
(In thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 116,157	1,199,897
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	151,750	140,353
Loss on debt refinancing	4,247	—
Loss on disposal of land, buildings, equipment, and books	4,405	2,585
Net (gain) loss on investments	(1,450)	(994,190)
Private gifts and grants restricted for long-term investment	(237,017)	(238,366)
Other nonoperating changes	23,483	51,952
Minimum pension liability adjustment	—	(2,210)
Postretirement benefit changes other than net periodic benefit cost	16,545	—
Effect of a change in accounting for pension and other postretirement benefit plans	—	117,255
Cumulative effect of a change in accounting for correction of prior year misstatements	—	(88,083)
Changes in assets and liabilities:		
Notes and accounts receivable	(33,055)	(179)
Prepaid expenses and other assets	36,250	(43,802)
Accounts payable and other liabilities	32,649	103,355
Self-insurance liability	6,832	17,382
Total adjustments	4,639	(933,948)
Net cash provided by operating activities	120,796	265,949
Cash flows from investing activities:		
Purchase of investments	(1,670,870)	(1,931,280)
Proceeds from sale of investments	1,837,494	1,616,565
Acquisition of land, buildings, equipment, and books	(476,608)	(317,087)
Loans disbursed	(61,255)	(62,324)
Principal collected on loans	42,107	57,455
Net cash used in investing activities	(329,132)	(636,671)
Cash flows from financing activities:		
Proceeds from issuance of notes and bonds payable	1,124,516	1,052,437
Principal payments on notes and bonds payable	(982,334)	(738,992)
Proceeds from private gifts and grants restricted for long-term investment	166,675	238,704
Other nonoperating changes	(88,962)	(115,097)
Net cash provided by financing activities	219,895	437,052
Increase in cash and cash equivalents	11,559	66,330
Cash and cash equivalents at:		
Beginning of year	88,056	21,726
End of year	\$ 99,615	88,056
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 70,376	61,257

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

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

(b) Basis of Presentation

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

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

For reporting purposes, however, the University follows the reporting requirements of the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide for Not-for-Profit Organizations*, which 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 healthcare 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, 2008 and 2007

(In thousands of dollars)

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

Net assets consisted of the following at June 30:

<u>Detail of net assets</u>	2008			<u>Total</u>	<u>2007 Total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>		
University:					
Operating	\$ (253,375)	13,692	—	(239,683)	(166,829)
Pledges	—	183,683	76,020	259,703	192,927
Student loans	—	—	16,018	16,018	15,192
Endowment	4,860,800	30,022	1,042,939	5,933,761	5,832,226
Annuity and life income	—	15,378	28,964	44,342	53,809
Net investment in physical properties	129,136	182,700	—	311,836	327,946
Subtotal	4,736,561	425,475	1,163,941	6,325,977	6,255,271
Medical Center:					
Operating	245,074	28,462	—	273,536	538,216
Pledges	—	21,815	180	21,995	18,430
Endowment	499,804	—	5,901	505,705	210,080
Net investment in physical properties	154,777	—	—	154,777	143,836
Subtotal	899,655	50,277	6,081	956,013	910,562
Total	\$ 5,636,216	475,752	1,170,022	7,281,990	7,165,833

(c) *Operations*

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

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Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

(d) Tuition and Fees

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

(e) Gifts, Grants, and Contracts

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

Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated balance sheets. Included in deferred revenue at June 30, 2008 and 2007 are \$46,994 and \$45,746, respectively, of private grant and contract receipts, which have not been expended.

Private gifts, grants, and contracts operating revenue for fiscal years 2008 and 2007 consist of the following:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Private gifts:				
Unrestricted as to use	\$ 17,589	1,189	18,778	18,671
Temporarily restricted gifts whose restrictions were met during the fiscal year and reported as unrestricted revenue	52,682	—	52,682	44,135
Private grants and contracts	62,883	—	62,883	57,006
Total	\$ 133,154	1,189	134,343	119,812

(f) Endowment Payout

The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments, lagged by one year, is available each year for expenditure in the form of endowment payout. The exact payout percentage, which is set each year by the Board

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Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

of Trustees with the objective of a 5% average payout over time, was 5.0% and 5.2% for the fiscal years ended June 30, 2008 and 2007, 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 2008 and 2007 consists of the following:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Interest, dividends, and rents	\$ 82,843	4,753	87,596	93,944
Investment gains used to support the endowment payout formula	137,212	8,300	145,512	109,020
Total	\$ 220,055	13,053	233,108	202,964

Unrestricted operating endowment payout revenue for fiscal years 2008 and 2007 consists of the following:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Unrestricted payout	\$ 56,882	13,053	69,935	59,121
Temporarily restricted payout whose restrictions were met during the fiscal year and reported as unrestricted revenue	161,041	—	161,041	141,859
Total	\$ 217,923	13,053	230,976	200,980

(g) Patient Care

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

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Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

(h) Cash Equivalents

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

(i) Investments

Investments are recorded in the consolidated financial statements at fair value. The fair value of investments is based on quoted market prices, except for certain alternative investments, such as private equity, real assets, and absolute return, for which quoted market prices may not be available. The estimated fair value for absolute return, private equity, and real asset investments is based on valuations provided by the external investment managers. The valuations for these alternative investments necessarily involve estimates, appraisals, assumptions, and methods which are reviewed by the University's Investment Office.

The University does not engage directly in unhedged speculative investments; however, the board of trustees has authorized derivative investments to gain market exposure within asset class ranges, hedge nondollar investments, and currencies, and provide for defensive portfolio strategies. Derivative investments are recorded at fair value and valuation gains and losses are included in the consolidated statements of activities.

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

(j) Land, Buildings, Equipment, and Books

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

(k) Asset Retirement Obligation

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

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Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

(l) Correction of Prior Year Misstatements

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

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

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

(m) Split Interest Agreements

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

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Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

(n) Use of Estimates

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

(o) Reclassifications

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

(2) The University of Chicago Medical Center

(a) Organization

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

(b) Agreements with the University

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

(c) Basis of Presentation

The Medical Center maintains its accounts and prepares stand-alone financial statements in conformity with accounting and reporting principles of the AICPA *Audit and Accounting Guide for Health Care Organizations*. For purposes of presentation of the Medical Center financial position and changes in net assets in the consolidated financial statements, several reclassifications have been made as follows: (1) the provision for uncollectible Medical Center's patient accounts receivable of \$46,968 in fiscal year 2008 and \$56,022 in fiscal year 2007 has been reclassified as a reduction of patient care revenue and (2) investment gains of \$69,876 in fiscal year 2008 and \$29,411 in fiscal year 2007 not used for operations have been reclassified as a nonoperating change in unrestricted net assets.

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Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

(3) Investments

Fair values of investments at June 30, 2008 and 2007 are shown below:

	2008				2007 Consolidated
	University and Medical Center Endowment	Other investments		Consolidated	
	University	Medical Center	Consolidated		
Cash equivalents	\$ 53,680	3,605	—	57,285	92,633
Domestic public equities	599,548	59,945	126,184	785,677	1,001,876
International public equities	1,231,953	24,413	26,554	1,282,920	1,604,943
Private equity	918,950	4,739	14,426	938,115	799,203
Real assets	1,037,113	24,946	—	1,062,059	714,156
Absolute return	2,092,186	10,913	—	2,103,099	1,790,698
High yield bonds	—	20,092	—	20,092	460
Fixed income	476,600	17,708	124,780	619,088	718,790
Funds held in trust (primarily cash equivalents and bonds)	29,436	277,800	876	308,112	534,175
Total	\$ 6,439,466	444,161	292,820	7,176,447	7,256,934

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2008, the University had unfunded commitments of \$1,892,000, which are likely to be called through 2016.

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Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(In thousands of dollars)

Changes in the fair value of endowment investments were as follows for the fiscal years ended June 30, 2008 and 2007:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Investment return:				
Endowment yield (interest, dividends, and rents)	\$ 82,843	4,753	87,596	93,944
Realized gains on investments	502,317	43,653	545,970	452,262
Unrealized gains (losses) on investments	<u>(400,766)</u>	<u>(39,840)</u>	<u>(440,606)</u>	<u>522,202</u>
Total investment return	184,394	8,566	192,960	1,068,408
Endowment payout	<u>(220,055)</u>	<u>(13,053)</u>	<u>(233,108)</u>	<u>(202,964)</u>
Net investment return	<u>(35,661)</u>	<u>(4,487)</u>	<u>(40,148)</u>	<u>865,444</u>
Other changes in endowment investments:				
Gifts and pledge payments received in cash	86,317	112	86,429	141,335
Transfers to create funds functioning as endowment	49,057	300,000	349,057	156,641
Other changes	<u>1,822</u>	<u>—</u>	<u>1,822</u>	<u>38,972</u>
Total other changes in endowment investments	<u>137,196</u>	<u>300,112</u>	<u>437,308</u>	<u>336,948</u>
Net change in endowment investments	101,535	295,625	397,160	1,202,392
Endowment investments at:				
Beginning of year	<u>5,832,226</u>	<u>210,080</u>	<u>6,042,306</u>	<u>4,839,914</u>
End of year	<u><u>\$ 5,933,761</u></u>	<u><u>505,705</u></u>	<u><u>6,439,466</u></u>	<u><u>6,042,306</u></u>

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(4) Notes and Accounts Receivable

Components of notes and accounts receivable at June 30, 2008 and 2007 are shown below:

	2008			2007 Consolidated
	University	Medical Center	Consolidated	
Patients	\$ 78,661	141,504	220,165	202,407
Students:			—	
Loans	131,806	—	131,806	111,675
Tuition and fees	2,590	—	2,590	2,332
U.S. government	28,627	—	28,627	28,144
All other	92,867	—	92,867	79,130
Subtotal	334,551	141,504	476,055	423,688
Less allowance for doubtful accounts (primarily patient receivables)	(69,253)	(29,915)	(99,168)	(99,004)
Total	\$ <u>265,298</u>	<u>111,589</u>	<u>376,887</u>	<u>324,684</u>

(5) Land, Buildings, Equipment, and Books

Components of land, buildings, equipment, and books at June 30, 2008 and 2007 are shown below:

	2008			2007 Consolidated
	University	Medical Center	Consolidated	
Land	\$ 63,510	36,029	99,539	84,493
Buildings	1,616,986	617,376	2,234,362	2,083,647
Equipment	343,159	361,518	704,677	659,239
Books	221,972	—	221,972	210,731
Construction in progress	516,046	61,476	577,522	308,698
Subtotal	2,761,673	1,076,399	3,838,072	3,346,808
Less accumulated depreciation	(935,137)	(528,361)	(1,463,498)	(1,348,197)
Total	\$ <u>1,826,536</u>	<u>548,038</u>	<u>2,374,574</u>	<u>1,998,611</u>

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(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 2008 and 2007 are shown below:

	<u>Fiscal year maturity</u>	<u>Interest rate</u>	<u>2008</u>	<u>2007</u>
University:				
Fixed rate:				
Illinois Educational Facilities Authority (IEFA):				
Series 1993	2014	5.9% – 6.0%	\$ 2,625	2,975
Series 1998A	—	5.0% – 5.3%	—	123,415
Series 2001A	2042	5.3%	2,860	2,860
Series 2003A	2034	4.0% – 5.3%	182,145	186,775
Illinois Finance Authority (IFA):				
Series 2004A	2035	5.0%	98,290	100,000
Series 2004C	2040	3.8	78,467	78,574
Series 2007	2047	5.0	244,030	244,030
Series 2008	2039	3.2	123,604	—
Illinois Health Facilities Authority (IHFA) – Series 1985				
	2021	5.5	61,380	61,500
Unamortized premium			9,210	7,786
Total fixed rate			<u>802,611</u>	<u>807,915</u>
Variable rate:				
Illinois Student Assistance Commission (ISAC)				
	2009	2.5%	86,006	69,095
IEFA:				
Pooled financing program				
Series 1998B	2011	1.6	2,268	2,268
Series 2001B-1	2026	4.1	90,090	90,090
Series 2001B-1	2037	3.5	60,000	60,000
Series 2001B-2	2037	4.0	40,000	40,000
Series 2001B-3	2037	2.0	72,265	72,265
Series 2003B	2034	1.5	47,109	48,113
IFA – Series 2004B	2035	1.5	98,014	100,000
Taxable commercial paper	2009	2.6	50,000	—
Bank line of credit (\$200,000 available)	2009	2.2	195,500	96,100
Total variable rate			<u>741,252</u>	<u>577,931</u>
Total University			<u>1,543,863</u>	<u>1,385,846</u>
Medical Center				
Fixed rate:				
IHFA:				
Series 2001 Serial bond	2024	5.1%	32,440	34,440
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%	45,380	50,515
Unamortized premium			1,794	2,211
Total fixed rate			<u>131,779</u>	<u>139,331</u>
Variable rate:				
IHFA:				
Series 1994C	2027	5.0% – 9.0%	55,400	55,400
Series 1998	2027	5.0% – 7.8%	110,600	112,000
IEFA pooled financing program	2038	1.6%	95,488	97,004
Bank line of credit (\$15,000 available)			—	—
Total variable rate			<u>261,488</u>	<u>264,404</u>
Total Medical Center			<u>393,267</u>	<u>403,735</u>
Total notes and bonds payable			<u>\$ 1,937,130</u>	<u>1,789,581</u>

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(a) Fiscal 2008 Transactions

During fiscal year 2008, the University issued \$123,604 in adjustable rate revenue bonds through the IFA. Proceeds from the IFA Series 2008 bonds were used to purchase U.S. government securities which were deposited in an irrevocable trust solely for the purpose of making principal and interest payments on \$121,810 of IEFA Series 1998A bonds. Accordingly, the IFA Series 1998A bonds have been legally extinguished, and neither the indebtedness nor the assets of the irrevocable trust are included in the 2008 consolidated balance sheet. Subsequently, the University entered into an interest rate swap agreement that has the effect of fixing the rate of interest at 3.2% for the IFA Series 2008 bonds.

In June 2008, the University implemented a taxable commercial paper program to provide interim financing for the construction and renovation of educational facilities and to provide financing for capital projects that cannot be financed with tax-exempt debt. This program enables the University to issue up to \$200,000 in notes. As of June 30, 2008, there was \$50,000 in taxable commercial paper notes outstanding.

The Medical Center IHFA Series 1994C and 1998 variable rate debt is supported by separate bank liquidity facilities. On June 30, 2008, \$51,800 and \$91,500 of these series were tendered under these facilities. These bank bonds bear interest at 5.0% and require repayment in five years. The remaining outstanding debt of \$3,600 and \$19,100 bear interest at 9.0% and 7.8%, respectively.

(b) Defeased Debt

As of June 30, 2008 and 2007, the total principal amount of indebtedness considered to be legally extinguished and, therefore, excluded from the University notes and bonds payable was \$196,980 and \$77,535, respectively.

(c) Interest Rate Swaps

In order to reduce exposure to adjustable interest rates on variable rate debt, the University entered into interest rate swap agreements involving the IFA Series 2004C and Series 2008 adjustable rate bonds. These agreements have the effect of fixing the rate of interest for the variable rate debt. The fair value of these swap agreements are the estimated amount that the University would pay or receive to terminate the agreements as of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. The fair value of the interest rate swap agreements was an accrued liability of \$5,661 at June 30, 2008 and an accrued asset of \$966 at June 30, 2007. This financial instrument involves counterparty credit exposure. The counterparty for this swap transaction is a major financial institution that meets the University's criteria for financial stability and creditworthiness.

(d) Debt Payments

Principal payments required for University notes and bonds in each of the five years ending June 30, 2009 through 2013 are approximately \$11,512; \$13,622; \$15,709; \$15,199; and \$15,883, respectively.

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Notes to Consolidated Financial Statements

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Principal payments required in each of the five years ending June 30, 2009 through 2013 for the Medical Center notes and bonds are approximately \$8,845; \$8,615; \$8,965; \$9,420; and \$9,900 respectively.

(e) Carrying Value

The carrying value of long-term debt does not differ materially from its estimated fair value as of June 30, 2008 and 2007, based on quoted market prices for the same or similar issues.

(f) Collateral

The University's June 30, 2008 notes and bonds payable are secured by certain physical properties with a carrying value of approximately \$225 and \$7,919 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. The University's IEFA Pooled Financing Program bonds and IFA Series 2008 variable rate bonds are guaranteed by bank lines of credit. The remainder of the University's variable rate debt is guaranteed by a \$150,000 bank letter of credit.

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

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

(g) Remarketing

Included in the University and Medical Center notes and bonds payable are \$741,252 and \$261,488, respectively, of variable rate notes and bonds maturing through fiscal year 2038. In the event the University's and Medical Center remarketing agents are unable to remarket the notes and bonds, they become a demand note and require immediate payment.

(h) Subsequent Event

On September 3, 2008, the Medical Center obtained a total of \$165,000 in taxable lines of credit from three banks. These lines bear variable interest rates and expire in six months. The lines were used to redeem IHFA Series 1994C and 1998 bonds. The Medical Center plans to issue new fixed and variable rate debt to repay the lines before they expire.

(7) 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, 2008 and 2007, investment securities with an aggregate market value of \$378,023 and \$532,412, respectively, were loaned to various brokers and are returnable on demand. In exchange, the University

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received cash collateral of \$306,223 and \$494,429 and noncash collateral of \$81,872 and \$49,576, at June 30, 2008 and 2007, respectively. Cash collateral is reported as both an asset and liability of the University.

(8) Pledges

Pledges receivable at June 30, 2008 and 2007 are shown below:

	2008			2007
	University	Medical Center	Consolidated	Consolidated
Unconditional promises expected to be collected in:				
Less than one year	\$ 86,454	7,002	93,456	84,514
One year to five years	212,775	13,294	226,069	148,034
More than five years	54,045	4,982	59,027	52,091
	<u>353,274</u>	<u>25,278</u>	<u>378,552</u>	<u>284,639</u>
Less unamortized discount and allowance for uncollectible pledges	<u>(93,571)</u>	<u>(3,283)</u>	<u>(96,854)</u>	<u>(73,282)</u>
Total	<u>\$ 259,703</u>	<u>21,995</u>	<u>281,698</u>	<u>211,357</u>

In addition, at June 30, 2008, the University has received \$64,575 of promises to give, which are conditional upon the raising of matching gifts from other sources, implementation of academic programs, or completion of construction projects. These amounts will be recognized as revenue in the periods in which the conditions are fulfilled.

(9) Self-Insurance Liability

The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which, for the years ended June 30, 2008 and 2007 was \$10,000 per claim and unlimited in annual aggregate. Claims in excess of \$10,000 are subject to an additional self-insurance retention limited to \$15,000 per claim and \$15,000 in annual aggregate. The Medical Center is included under this insurance program and is charged for their portion of self-insurance costs. The University and Medical Center also maintain a self-insurance program for workers' compensation and certain other liability claims.

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

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The medical malpractice self-insurance liability is the estimated present value of self-insured claims that will be settled in the future, and considers anticipated payout patterns as well as interest to be earned on available assets prior to payment. If the present value method was not used, the liability for medical malpractice self-insurance claims would be approximately \$45,300 higher than the amount recorded in the consolidated financial statements at June 30, 2008. The interest rate assumed in determining the present value was 6.0%.

The estimated liability for incurred malpractice, workers' compensation, and other claims (filed and unfiled) as of June 30, 2008 and 2007 is presented below:

	2008			2007
	University	Medical Center	Consolidated	
Medical malpractice	\$ 189,186	—	189,186	181,550
Workers' compensation	3,441	6,215	9,656	10,262
Other	2,906	—	2,906	3,104
Total	\$ 195,533	6,215	201,748	194,916

(10) Pension Plans and Other Postretirement Benefits

Substantially all personnel of the University participate in either the defined contribution pension plan for academic staff or the defined benefit and contribution pension plans for nonacademic personnel. The majority of Medical Center employees participate in the University's pension plan for nonacademic employees. The University and Medical Center make annual contributions to the defined benefit pension plan at a rate necessary to maintain plan funding on an actuarially recommended basis. Based primarily on participation, the University and Medical Center share equally in contributions made to the defined benefit pension plan.

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

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

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

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

	Defined benefit pension plan		Other postretirement benefit plans	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefit obligation at				
beginning of year	\$ 423,208	403,771	143,200	129,844
Service cost	25,681	24,513	6,043	5,663
Interest cost	26,451	25,227	8,920	8,028
Benefits paid	(29,498)	(27,944)	(7,778)	(8,850)
Actuarial loss (gain), net	(37,426)	(2,359)	(6,437)	8,515
Benefit obligation at end of year	<u>408,416</u>	<u>423,208</u>	<u>143,948</u>	<u>143,200</u>
Change in fair value of plan assets:				
Fair value of plan assets				
at beginning of year	363,093	324,998	26,368	27,920
Actual return on plan assets	(38,156)	63,100	(525)	3,664
Employer contributions	24,325	2,939	2,364	3,634
Benefits paid	(29,498)	(27,944)	(7,778)	(8,850)
Fair value of plan assets				
at end of year	<u>319,764</u>	<u>363,093</u>	<u>20,429</u>	<u>26,368</u>
Funded status – liability	<u>\$ (88,652)</u>	<u>(60,115)</u>	<u>(123,519)</u>	<u>(116,832)</u>

The accumulated benefit obligation for the defined benefit pension plan was \$333,265 and \$339,308 at June 30, 2008 and 2007, respectively.

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(a) Components of Net Periodic Benefit Cost

	Defined benefit pension plan		Other postretirement benefit plans	
	2008	2007	2008	2007
Service cost	\$ 25,681	24,513	6,043	5,663
Interest cost	26,451	25,227	8,920	8,028
Expected return on plan assets	(25,362)	(23,628)	(1,576)	(1,691)
Amortization of prior service cost (benefit)	1,038	1,038	(2,298)	(2,298)
Amortization of transition obligation	—	—	1,370	1,370
Amortization of actuarial loss	4,125	5,638	4,453	4,373
Net periodic benefit cost	\$ 31,933	32,788	16,912	15,445
Amounts included in the consolidated statements of activities:				
University	\$ 19,770	31,319	16,912	15,445
Medical Center	12,163	1,469	—	—
Total	\$ 31,933	32,788	16,912	15,445

Defined contribution pension plan costs included in the consolidated statements of activities amounted to \$35,242 in fiscal year 2008 and \$33,289 in fiscal year 2007 for the University and \$7,100 in fiscal year 2008 and \$6,300 in fiscal year 2007 for the Medical Center.

(b) Actuarial Assumptions

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

	Defined benefit pension plan		Other postretirement benefit plans	
	2008	2007	2008	2007
Discount rate	7.1%	6.4%	7.1%	6.4%
Expected return on plan assets	8.0	8.0	6.5	6.5
Rate of compensation increase	4.2	4.2	4.2	4.2
Healthcare cost trend rates:				
Next two fiscal years	—	—	8.0% – 8.5%	8.0% – 9.0%
Next seven fiscal years	—	—	5.0 – 7.5	5.0 – 7.0
Thereafter	—	—	5.0	5.0

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The expected return on plan assets assumptions for both the defined benefit pension plan and the other postretirement benefit plans is based on historical returns for similar investment portfolios.

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

		<u>2008</u>	<u>2007</u>
Effect on total service cost and interest cost:			
One-percentage point increase	\$	2,462	2,110
One-percentage point decrease		(1,911)	(1,648)
Effect on year-end postretirement benefit obligation:			
One-percentage point increase	\$	18,387	19,280
One-percentage point decrease		(14,946)	(15,568)

(c) Plan Assets

Weighted average asset allocations by asset category are as follows:

	Defined benefit pension plan		Other postretirement benefit plans	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Domestic public equities	64%	65%	49%	64%
International public equities	21	21	—	—
Fixed income	15	14	51	36
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

(d) Contributions

The University expects to make no contribution to its postretirement healthcare plan and, along with the Medical Center, expects to make a \$16,262 contribution to the defined benefit pension plan in fiscal year 2009.

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(e) *Estimated Future Benefits Payments*

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

Fiscal year		Defined benefit pension plan	Other postretirement benefit plans
2009	\$	22,992	6,338
2010		22,897	6,058
2011		23,455	7,888
2012		24,576	8,060
2013		25,584	9,493
2014 – 2018		141,940	49,436

(f) *Prescription Drug Act*

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The Act provides for special tax-free subsidies to employers that offer retiree medical benefit plans with qualifying drug coverage. The University's postretirement plan currently meets Medicare's criteria for the tax-free subsidy because the University's plan provides for a higher level of reimbursement than Medicare. The University has recognized the effect of this subsidy in the calculation of its postretirement benefit obligation, the impact of which is to reduce the benefit obligation by \$34,929 and \$34,730 at June 30, 2008 and 2007, respectively.

(g) *Curtailed Pension Plan*

The Medical Center maintains a separate noncontributory defined benefit pension plan on behalf of a former affiliated organization. Prior to assumption, the benefit plan was curtailed by freezing participation and benefit accruals. At June 30, 2008 and 2007, the benefit obligation for the plan exceeded the plan's assets thus creating an unfunded liability of \$8,002 and \$7,547 at June 30, 2008 and 2007, respectively.

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(In thousands of dollars)

(11) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2008 and 2007 are shown below:

	2008	2007
University:		
Academic and research:		
Instruction	\$ 692,172	660,696
Research	245,066	235,682
Auxiliary enterprises	139,776	122,352
Library	18,506	17,685
Student services	42,573	39,227
Operation and maintenance of physical plant	112,041	95,745
Depreciation	81,083	80,000
Interest on notes and bonds	41,826	40,516
Total academic and research	1,373,043	1,291,903
Administration:		
Institutional support	94,409	95,531
Informational services	51,620	53,566
Development	48,901	36,857
Operation and maintenance of physical plant	5,039	4,170
Depreciation	12,578	11,519
Interest on notes and bonds	5,799	4,138
Total administration	218,346	205,781
Total University	1,591,389	1,497,684
Medical Center:		
Healthcare service	912,653	879,989
General and administrative	88,986	100,653
	1,001,639	980,642
Total	\$ 2,593,028	2,478,326

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.

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(12) Affiliated Organizations

The University has an ongoing relationship with the National Opinion Research Center (NORC), a not-for-profit organization that conducts research in the public interest primarily for various federal agencies. The majority of NORC's board of trustees are faculty members or officers of the University. Program-related revenue for the years ended December 31, 2007 and 2006 was \$86,399 and \$98,890, respectively. Unrestricted net assets at December 31, 2007 and 2006 were \$16,743 and \$15,979 respectively. In addition, the University has guaranteed \$596 of NORC's debt. Consolidation of this not-for-profit organization is not required because the University does not have both control and an economic interest.

The University, through its affiliate UChicago Argonne, LLC, operates Argonne National Laboratory (ANL) under a contract with the U.S. Department of Energy (DOE). This contract provides for the payment of a fixed management allowance and an additional fee based on performance judged against established measures. The University is the sole member of UChicago Argonne, LLC; however, the performance fee is shared with two subcontractors that assist UChicago Argonne, LLC with the management and operation of ANL.

Beginning in fiscal year 2008, the University, as a member of Fermi Research Alliance, LLC (FRA), also operates Fermi National Accelerator Laboratory (Fermilab) on behalf of DOE. The Fermilab contract between DOE and FRA provides for the payment of a fixed management allowance and an additional performance fee. The University shares the performance fee with Universities Research Association, the other member of FRA, and with a subcontractor that assists FRA with the management and operation of Fermilab.

The expenditures under the respective contracts and the related reimbursements of \$526,455 for ANL and \$334,184 for Fermilab in fiscal year 2008, and \$490,327 for ANL and \$167,543 for Fermi in fiscal year 2007, are not included in the consolidated statements of activities. Net assets relating to ANL and to Fermilab are owned by the U.S. government and, therefore, are not included in the consolidated balance sheets.

(13) Contingencies

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

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Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
Research and Development Cluster:				
Department of Agriculture:				
Grants for Agricultural Research Competitive Research Grants	10.206	\$ 680,275	—	680,275
Kansas State University		—	35,878	35,878
University of Washington		—	23,021	23,021
Agricultural and Rural Economic Research	10.250	276,256	—	276,256
Johns Hopkins University		—	19,786	19,786
University of Wisconsin		—	11,482	11,482
Food Assistance and Nutrition Research Programs (FANRP)	10.253	314,457	—	314,457
United States Department of Agriculture	10.RD,43-3REM-5-8019	100,000	—	100,000
Department of Agriculture Total		<u>1,370,988</u>	<u>90,167</u>	<u>1,461,155</u>
Department of Defense:				
Basic and Applied Scientific Research	12.300	1,084,998	—	1,084,998
Military Medical Research and Development	12.420	752,180	—	752,180
University of Alabama at Birmingham		—	55,172	55,172
University of Southern California		—	347,040	347,040
Basic Scientific Research	12.431	1,075,068	—	1,075,068
University of Maryland		—	294,656	294,656
Basic, Applied, and Advanced Research in Science and Engineering	12.630	55,743	—	55,743
Air Force Defense Research Sciences Program	12.800	248,002	—	248,002
Mathematical Sciences Grants Program	12.901	21,871	—	21,871
Research and Technology Development	12.910	128	—	128
Northwestern University		—	70,352	70,352
University of Illinois at Champaign		—	107,609	107,609
Department of Defense:				
Department of Defense	12.RD	(11)	—	(11)
Argonne National Laboratory	12.RD,153513	—	38,728	38,728
Henry M. Jackson Foundation	12.RD,181859	—	266,396	266,396
Henry M. Jackson Foundation	12.RD,MDA904-03-C-1788/BJ5979	—	256,540	256,540
Wright State University	12.RD,N66001-03-D-2501	—	2,015	2,015
Henry M. Jackson Foundation	12.RD,N66002-04-D-2506(1)	—	(39,826)	(39,826)
Henry M. Jackson Foundation	12.RD,W-31-109-ENG-38	—	443,395	443,395
Evanston Northwestern Healthcare Research Inst	12.RD, W81XWH-04-1-0333	—	13,400	13,400
Department of Defense	12.RD, W81XWH-07-1-0203	187,346	—	187,346
Rosalind Franklin University of Medicine and Science	12.RD,WX1XWH-05-1-0580	—	33,081	33,081
University of Southern California	12.UNK,FA8750-06-C-0210	—	(2)	(2)
Department of Defense Total		<u>3,425,325</u>	<u>1,888,556</u>	<u>5,313,881</u>
Department of Housing and Urban Development:				
Doctoral Dissertation Research Grants	14.516	3,405	—	3,405
Department of Housing and Urban Development Total		<u>3,405</u>	<u>—</u>	<u>3,405</u>
Department of Justice:				
National Institute of Justice Research, Evaluation and Development Project Grants	16.560	86,394	—	86,394
Department of Justice:				
Urban Institute	16.RD,UI-07895-000-000	—	(3,208)	(3,208)
Illinois Criminal Justice Information Authority	16.UNK	—	14,928	14,928
University of Washington	16.RD	—	30,295	30,295
Department of Justice Total		<u>86,394</u>	<u>42,015</u>	<u>128,409</u>
Department of State:				
Department of State:				
American Research Center in Egypt	19.UNK	—	6,044	6,044
Department of State	19.UNK,263-G-00-05-00005-00	264,524	—	264,524
Department of State:				
American Research Center in Egypt	19.UNK,263-G-00-93-00089-00	—	13	13
Department of State:				
Population Council	19.UNK,CB06.102A	—	134,129	134,129
Department of State Total		<u>264,524</u>	<u>140,186</u>	<u>404,710</u>
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration	43.000	—	59,683	59,683
University of Illinois at Champaign		—	—	—
Aerospace Education Services Program	43.001	2,157,539	—	2,157,539
California Institute of Technology		—	81,239	81,239
Cornell University		—	112,532	112,532
Jet Propulsion Laboratory		—	234,127	234,127
Massachusetts Institute of Technology		—	114,059	114,059
Southwest Research Institute		—	21,240	21,240
Space Telescope Science Institute		—	209,336	209,336
University Space Research Association		—	841,762	841,762

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
National Aeronautics and Space Administration				
Adler Planetarium	43.RD.NNG06G14OG	\$ —	6,920	6,920
University of Maryland	43.RD.NNJ05HE73G	—	94,637	94,637
Jet Propulsion Laboratory	43.RD.RSA NO. 1307783	—	5,486	5,486
National Aeronautics and Space Administration Total		<u>2,157,539</u>	<u>1,781,021</u>	<u>3,938,560</u>
National Endowment for the Humanities:				
Promotion of the Humanities Division of Preservation and Access	45.149	160,383	—	160,383
University of Michigan		—	9,329	9,329
Promotion of the Humanities Research	45.161	103,428	—	103,428
National Endowment for the Humanities Total		<u>263,811</u>	<u>9,329</u>	<u>273,140</u>
National Science Foundation:				
Engineering Grants	47.041	213,140	—	213,140
Northwestern University		—	135,652	135,652
University of Alaska Fairbanks		—	60,720	60,720
University of Nevada		—	3,527	3,527
Mathematical and Physical Sciences	47.049	17,148,263	—	17,148,263
Columbia University		—	940,131	940,131
Fermi National Accelerator Laboratory		—	107,157	107,157
Johns Hopkins University		—	91,452	91,452
Smithsonian Institution		—	(37,599)	(37,599)
University of California Santa Cruz		—	59,174	59,174
University of Florida		—	86,171	86,171
University of Illinois at Champaign		—	27,396	27,396
University of Minnesota		—	21,672	21,672
University of Notre Dame		—	353,679	353,679
University of Southern California		—	(25,077)	(25,077)
University of Utah		—	6,912	6,912
University of Wisconsin		—	928,426	928,426
Geosciences	47.050	3,663,738	—	3,663,738
State University of New York		—	185,899	185,899
University of California San Diego		—	9,039	9,039
Computer and Information Science and Engineering	47.070	13,709,798	—	13,709,798
Depaul University		—	394	394
University of Delaware		—	76,759	76,759
University of Florida		—	3,602	3,602
University of Tennessee		—	22,944	22,944
Virginia Tech		—	70,823	70,823
Biological Sciences	47.074	2,372,646	—	2,372,646
University of California San Diego		—	232,042	232,042
University of California Santa Barbara		—	103,163	103,163
University of Illinois at Chicago		—	18,527	18,527
University of Southern California		—	243,535	243,535
Social, Behavioral, and Economic Sciences	47.075	1,999,722	—	1,999,722
Northwestern University		—	23,569	23,569
Purdue University		—	4,481	4,481
Temple University		—	797,583	797,583
Education and Human Resources	47.076	1,275,285	—	1,275,285
Northwestern University		—	194,689	194,689
University of Missouri – Columbia		—	103,587	103,587
Polar Programs	47.078	2,920,708	—	2,920,708
Office of Cyber infrastructure	47.080	723,395	—	723,395
Northwestern University		—	14,373	14,373
University of Florida		—	51,750	51,750
National Science Foundation Total		<u>44,026,695</u>	<u>4,916,152</u>	<u>48,942,847</u>
Veterans Administration:				
Veterans Administration	64.RD	1,507	—	1,507
Veterans Administration Total		<u>1,507</u>	<u>—</u>	<u>1,507</u>
Environmental Protection Agency:				
Science to Achieve Results (STAR) Fellowship Program				
Johns Hopkins University	66.509	—	381,465	381,465
Science to Achieve Results (STAR) Fellowship Program	66.514	14,569	—	14,569
Environmental Protection Consolidated Grants				
Program Support	66.600	470,817	—	470,817
Environmental Protection Agency	66.RD, RD83241701			
Johns Hopkins University		—	(5,281)	(5,281)
Environmental Protection Agency Total		<u>485,386</u>	<u>376,184</u>	<u>861,570</u>

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
Department of Energy:				
Office of Science Financial Assistance Program	81.049	\$ 3,265,637	—	3,265,637
Argonne National Laboratory		—	100,427	100,427
Brookhaven National Laboratory		—	154,521	154,521
Carnegie Institution of Washington		—	66,851	66,851
Fermi National Accelerator Laboratory		—	132,380	132,380
Fivesight Technologies, Inc.		—	3,205	3,205
Krell Institute		—	846	846
Northwestern University		—	103,501	103,501
Smithsonian Institution		—	12,974	12,974
University of Arkansas		—	16,223	16,223
Stony Brook University		—	9,287	9,287
State Energy Program Special Projects	81.119			
Argonne National Laboratory		—	138,537	138,537
Fermi National Accelerator Laboratory		—	31,448	31,448
University of Wisconsin		—	387,260	387,260
Department of Energy:				
Fermi National Accelerator Laboratory	81.RD	—	105,627	105,627
Argonne National Laboratory	81.RD.1I-00322	—	24,428	24,428
Battelle Memorial Institute	81.RD.4000005731	—	(3,122)	(3,122)
Argonne National Laboratory	81.RD.5J-00023-0005E	—	44,563	44,563
Argonne National Laboratory	81.RD.5J-00023-0020A/B	—	10,083	10,083
Argonne National Laboratory	81.RD.5J-00023-0021A	—	31,110	31,110
Argonne National Laboratory	81.RD.5J-00023-0024A	—	19,056	19,056
Argonne National Laboratory	81.RD.5J-00023-0025A	—	23,117	23,117
Argonne National Laboratory	81.RD.5J-00023-0027A	—	787	787
Argonne National Laboratory	81.RD.5J-00023-0029A	—	36,231	36,231
Argonne National Laboratory	81.RD.5J-00023-0031A	—	46,363	46,363
Argonne National Laboratory	81.RD.5J-00023-0030B	—	39,060	39,060
Argonne National Laboratory	81.RD.5J-00023-0036A	—	29,039	29,039
Argonne National Laboratory	81.RD.5J-00023-0038A	—	27,856	27,856
Argonne National Laboratory	81.RD.5J-00023-0042A	—	24,161	24,161
Argonne National Laboratory	81.RD.5J-00023-0045A	—	14,341	14,341
Argonne National Laboratory	81.RD.5J-00023-W028A	—	9,670	9,670
Argonne National Laboratory	81.RD.8A-01174	—	17,159	17,159
Lawrence-Livermore	81.RD.B523820	—	3,502,361	3,502,361
Department of Energy	81.RD.DE-FG02-04ER63786	2,522	—	2,522
Department of Energy	81.RD.DE-FG02-05ER64086	264,073	—	264,073
Department of Energy	81.RD.DE-FG02-07ER64501	383,166	—	383,166
Department of Energy Total		<u>3,915,398</u>	<u>5,159,350</u>	<u>9,074,748</u>
Department of Education:				
Safe and Drug-free Schools and Communities – State Grants	84.184, PO # 1671023			
Chicago Public Schools		—	50,616	50,616
National Institute on Disability and Rehabilitation Research:				
Rehabilitation Institute Research Corporation	84.133	—	14,432	14,432
Graduate Assistance in Areas of National Need	84.200	1,124,832	—	1,124,832
Language Resource Centers	84.229	323,889	—	323,889
Education Research, Development, and Dissemination	84.305	1,914,124	—	1,914,124
Teacher Quality Enhancement Grants	84.336	147,488	—	147,488
Department of Education	84.902	4,639	—	4,639
Department of Education:				
Illinois State Board of Education	84.RD.2008-4936-00-65108821051	—	59,016	59,016
Department of Education Total		<u>3,514,972</u>	<u>124,064</u>	<u>3,639,036</u>
Department of Health and Human Services:				
Innovations in Applied Public Health Research	93.061	437,258	—	437,258
Centers for Genomics and Public Health	93.063			
Northwestern University		—	980,502	980,502
Maternal and Child Health Federal Consolidated Programs				
American Academy of Pediatrics	93.110	—	14,378	14,378
Northwestern University		—	34,186	34,186
Environmental Health	93.113	26,972	—	26,972
Columbia University		—	181,009	181,009
Columbia University		—	6,159	6,159
Department of Health and Human Services	93.115			
Rush-Presbyterian-St. Luke's Medical Center		—	17,184	17,184
Oral Diseases and Disorders Research	93.121	1,060,626	—	1,060,626
Grants to Increase Organ Donations	93.134			
National Kidney Foundation of Illinois		—	32,739	32,739
Injury Prevention and Control Research and State and Community Based Programs	93.136	201,106	—	201,106

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
Human Genome Research	93.172	\$ 6,616,575	—	6,616,575
Pennsylvania State University		—	16,699	16,699
Stanford University		—	30,142	30,142
Research Related to Deafness and Communication Disorders	93.173	3,021,835	—	3,021,835
Northwestern University		—	27,884	27,884
University of Colorado		—	26,689	26,689
Allied Health Special Projects	93.191	96,191	—	96,191
SAIC-Frederick, Inc.		—	85,208	85,208
Research and Training in Complementary and Alternative Medicine	93.213	274,866	—	274,866
National Research Service Awards Health Services				
Research Training	93.225	32,438	—	32,438
Research on Healthcare Costs, Quality, and Outcomes	93.226	767,408	—	767,408
Indiana University		—	38,333	38,333
University of Pennsylvania		—	33,696	33,696
National Center on Sleep Disorders Research	93.233	841,034	—	841,034
Free University of Brussels		—	185,390	185,390
Northwestern University		—	95,662	95,662
University of Pennsylvania		—	4,378	4,378
Mental Health Research Grants	93.242	5,802,837	—	5,802,837
Columbia University		—	353,954	353,954
Duke University		—	36,973	36,973
Johns Hopkins University		—	87,437	87,437
Neuropsychiatric Research Institute		—	101,874	101,874
Oregon Health and Science University		—	71,567	71,567
University of California Los Angeles		—	37,520	37,520
University of California San Diego		—	103,138	103,138
University of Florida		—	158,933	158,933
University of Illinois at Chicago		—	117,705	117,705
University of Pittsburgh		—	28,051	28,051
University of Southern California		—	70,324	70,324
Alcohol Research Programs	93.273	158,729	—	158,729
Department of Health and Human Services	93.278	220,153	—	220,153
Drug Abuse and Addiction Research Programs	93.279	5,783,590	—	5,783,590
Medical College of Wisconsin		—	9,192	9,192
Rosalind Franklin University of Medicine and Science		—	43,971	43,971
University of Illinois at Chicago		—	67,228	67,228
Mental Health Research Career/Scientist Development Awards	93.281	716,494	—	716,494
Mental Health National Research Service Awards for Research Training	93.282	279,265	—	279,265
Centers for Disease Control and Prevention				
Investigations and Technical Assistance	93.283	140,765	—	140,765
Association of American Medical Colleges		—	46,443	46,443
Medical University of Ohio		—	244	244
University of Illinois at Chicago		—	13,500	13,500
University of Pittsburgh		—	62	62
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	3,593,545	—	3,593,545
University of Illinois at Chicago		—	35,814	35,814
University of Iowa		—	220,969	220,969
University of Minnesota		—	1,618	1,618
Trans-NIH Research Support	93.310	736,024	—	736,024
University of Virginia		—	25,450	25,450
NIH Clinical Research	93.333	(3,442)	—	(3,442)
NIH Biomedical Technology	93.371	53,227	—	53,227
National Center for Research Resources	93.389	6,155,250	—	6,155,250
University of Texas		—	2,775	2,775
Academic Research Enhancement Award	93.390	470,133	—	470,133
Columbia University		—	210,108	210,108
Cancer Cause and Prevention Research	93.393	6,898,336	—	6,898,336
Aids Research Alliance Chicago		—	(179)	(179)
H. Lee Moffitt Cancer Center and Research Inst		—	31,203	31,203
Northwestern University		—	15,865	15,865
Seattle Children's Hospital and Regional Medical Ctr		—	1,919	1,919
Southwest Oncology Group		—	8,318	8,318
Translational Genomics Research Institute		—	119,205	119,205
University of Hawaii		—	134,012	134,012
University of Illinois at Chicago		—	29,724	29,724
University of Pennsylvania		—	258,769	258,769

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
Cancer Detection and Diagnosis Research	93.394	\$ 2,605,094	—	2,605,094
American College of Radiology		—	9,010	9,010
Northwestern University		—	74,606	74,606
SAIC-Frederick, Inc.		—	8,958	8,958
University of Texas		—	56,879	56,879
Cancer Treatment Research	93.395	16,133,343	—	16,133,343
American College of Radiology		—	(10,494)	(10,494)
Duke University		—	32,231	32,231
Emmes Corporation		—	(260)	(260)
Gynecologic Oncology Group		—	81,720	81,720
Illinois Institute of Technology		—	—	—
Medical University of South Carolina		—	13,790	13,790
National Childhood Cancer Foundation		—	163,710	163,710
SAIC-Frederick, Inc.		—	1,054	1,054
University of Alabama at Birmingham		—	230,738	230,738
University of California San Francisco		—	20,300	20,300
University of Pittsburgh		—	20,556	20,556
University of Southern California		—	13,782	13,782
Expression Genetics, Inc.		—	36,631	36,631
Cancer Biology Research	93.396	5,158,078	—	5,158,078
Loyola University – Illinois		—	355,753	355,753
Northwestern University		—	8,479	8,479
University of California San Francisco		—	108,528	108,528
Cancer Centers Support Grants	93.397	7,868,641	—	7,868,641
University of Alabama at Birmingham		—	153,308	153,308
Cancer Research Manpower	93.398	1,802,030	—	1,802,030
American College of Radiology		—	11,581	11,581
Cancer Control	93.399			
Johns Hopkins University		—	13,873	13,873
National Surgical Adjuvant Breast And Bowel Project		—	(1,473)	(1,473)
Northwestern University		—	181,493	181,493
Abandoned Infants	93.551	351,251	—	351,251
Head Start:				
Chicago Department of Children And Youth	93.600,PO#10761	—	130,308	130,308
Social Services Research and Demonstration	93.647	77,363	—	77,363
Child Abuse and Neglect Discretionary Activities	93.670			
City of New York		—	134,308	134,308
Department of Health and Human Services	93.821	(895)	—	(895)
Cardiovascular Diseases Research	93.837	7,483,131	—	7,483,131
Northwestern University		—	4,426	4,426
University of Alabama at Birmingham		—	(2,591)	(2,591)
University of Illinois at Chicago		—	96,891	96,891
University of Pennsylvania		—	3,407	3,407
University of Pittsburgh		—	43,481	43,481
University of Utah		—	26,548	26,548
University of Wisconsin		—	14,875	14,875
Wake Forest University		—	85,083	85,083
Lung Diseases Research	93.838	7,111,019	—	7,111,019
Johns Hopkins University		—	291,581	291,581
Medical College of Georgia		—	36,604	36,604
Northwestern University		—	3,704	3,704
University of Missouri – Columbia		—	5,742	5,742
University of Wisconsin		—	26,242	26,242
Blood Diseases and Resources Research	93.839	242,034	—	242,034
Albert Einstein College of Medicine		—	121,010	121,010
Howard University		—	239,191	239,191
St Jude Children’s Research Hospital		—	881,312	881,312
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846	935,638	—	935,638
Cincinnati Children’s Hospital		—	8,247	8,247
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	8,976,989	—	8,976,989
Chemical Diversity Labs		—	30,514	30,514
Enteratech, Inc		—	11,538	11,538
Northwestern University		—	153	153
University of Texas		—	193,790	193,790
Washington University		—	64,815	64,815
Litholink Corporation		—	33,686	33,686
Digestive Diseases and Nutrition Research	93.848	4,041,408	—	4,041,408
Argonne National Laboratory		—	85,548	85,548
Emory University		—	13,707	13,707
Michigan State University		—	13,689	13,689
Northwestern University		—	2,929	2,929
University of California San Francisco		—	3,917	3,917

THE UNIVERSITY OF CHICAGO
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Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
University of Illinois at Chicago		\$ —	130,252	130,252
Yale University		—	251,557	251,557
Kidney Diseases, Urology, and Hematology Research	93.849	4,326,380	—	4,326,380
Northwestern University		—	8,804	8,804
University of Alabama at Birmingham		—	2,289	2,289
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	7,890,996	—	7,890,996
Beth Israel Deaconess Medical Center, Inc.		—	(2,177)	(2,177)
Brigham and Women's Hospital		—	1,673	1,673
Children's Hospital, Boston		—	(14,001)	(14,001)
Columbia University		—	11,954	11,954
Illinois Institute of Technology		—	35,237	35,237
Massachusetts General Hospital		—	7,647	7,647
Mayo Foundation		—	3,160	3,160
Northern California Inst for Research and Education		—	19,121	19,121
Northwestern University		—	349,592	349,592
The Children's Hospital of Philadelphia		—	66,673	66,673
Tourette Syndrome Association		—	20,665	20,665
University of California San Diego		—	20,686	20,686
University of Minnesota		—	1,452	1,452
University of Rochester		—	7,436	7,436
Allergy, Immunology, and Transplantation Research	93.855	20,279,090	—	20,279,090
Fred Hutchinson Cancer Research Center		—	46,861	46,861
Rhode Island Hospital		—	163,727	163,727
University of California Riverside		—	181,067	181,067
University of California San Francisco		—	52,931	52,931
University of Massachusetts		—	211,441	211,441
University of Miami		—	69,056	69,056
University of Missouri – Columbia		—	26,622	26,622
University of Wisconsin		—	29,475	29,475
Microbiology and Infectious Diseases Research	93.856	1,781,076	—	1,781,076
Children's Memorial Hospital, Chicago		—	(53,792)	(53,792)
Biomedical Research and Research Training	93.859	23,346,047	—	23,346,047
Biostructures, Inc.		—	369,245	369,245
Columbia University		—	153,554	153,554
Cornell University		—	81,204	81,204
Johns Hopkins University		—	48,456	48,456
Los Alamos National Laboratory		—	595,118	595,118
University of Connecticut Health Center		—	23,610	23,610
University of Massachusetts		—	30,381	30,381
University of Wisconsin		—	13,267	13,267
NIH Genetics and Developmental Biology Research and Research Training	93.862	579,303	—	579,303
NIH Population Research	93.864	682,277	—	682,277
University of Illinois at Chicago		—	73,726	73,726
Child Health and Human Development				
Extramural Research	93.865	5,180,832	—	5,180,832
Children's Memorial Hospital, Chicago		—	12	12
Johns Hopkins University		—	1,111,000	1,111,000
New York University		—	4,201	4,201
Ohio State University		—	8,796	8,796
University of Colorado		—	12,016	12,016
University of Kansas		—	352,866	352,866
University of Washington		—	27,986	27,986
Yale University		—	111,266	111,266
Aging Research	93.866	7,588,724	—	7,588,724
National Bureau of Economic Research		—	351,874	351,874
National Opinion Research Center		—	104,669	104,669
University of California San Diego		—	44,801	44,801
University of Connecticut Health Center		—	103,252	103,252
University of Michigan		—	9,451	9,451
University of Pennsylvania		—	62,048	62,048
Vision Research:	93.867	2,705,522	—	2,705,522
Jaeb Center for Health Research		—	768	768
Medical Library Assistance	93.879	61,074	—	61,074
Healthcare and other Facilities	93.887	66,120	—	66,120
Resource and Manpower Development in the				
Environmental Health Services	93.894	1,472,171	—	1,472,171

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
HIV Demonstration, Research, Public and Professional Education Projects	93.941	\$ 106,904	—	106,904
Assistance Programs for Chronic Disease Prevention and Control:				
City of Chicago Department of Health	93.945,PO#8629	—	(603)	(603)
International Research and Research Training	93.989	238,859	—	238,859
Bioterrorism Training and Curriculum Development Program:	93.996			
Metropolitan Chicago Healthcare Council		—	50,179	50,179
Department of Health and Human Services:	93.RD			
Mathematical Policy Research		—	20,782	20,782
National Opinion Research Center		—	49,281	49,281
Department of Health and Human Services:				
Duke University	93.RD,1 N01 AR22265-01	—	1,013	1,013
SAIC-Frederick, Inc.	93.RD,1X5290	—	5,349	5,349
University of Illinois at Champaign	93.RD,2 PN2 EY016570-02	—	106,514	106,514
RTI International	93.RD,200-2002-00776	—	31,727	31,727
Social and Scientific Systems	93.RD,223-02-6003	—	5,346	5,346
Urban Institute	93.RD,233-02-0059	—	134,170	134,170
Westat	93.RD,233-02-0087	—	20,697	20,697
SAIC-Frederick, Inc.	93.RD,23XS027	—	13,500	13,500
SAIC-Frederick, Inc.	93.RD,23XS027 (TO 08, P6580)	—	12,214	12,214
SAIC-Frederick, Inc.	93.RD,23XS027 T.O. 15	—	15,782	15,782
SAIC-Frederick, Inc.	93.RD,23XS027 T.O.14 (P7285)	—	(6,760)	(6,760)
Department of Health and Human Services	93.RD,263-MQ-611334	6,178	—	6,178
Department of Health and Human Services	93.RD,263-MQ-611958	5,655	—	5,655
University of California San Francisco	93.RD,3681SC A001	—	16,031	16,031
University of Illinois at Champaign	93.RD,5 PN2 EY016570-03	—	33,249	33,249
Hospital For Special Surgery	93.RD,5 R01 AR049772-03	—	6,245	6,245
University of California San Diego	93.RD,5 R01 NS037756-09	—	12,909	12,909
University of California Berkeley	93.RD,5 R21 DK075021-02	—	10,800	10,800
Emmes Corporation	93.RD,5 U01 DK067693-03	—	13,500	13,500
Duke University	93.RD,5 U10 CA76008-04	—	7,002	7,002
University of Wisconsin	93.RD,5 U10 EY14351-01	—	262	262
American Psychiatric Institute Research and Edu	93.RD,5T32MH19126-18	—	54,417	54,417
Department of Health and Human Services	93.RD,7 R49 CE000446-0	135,556	—	135,556
Booz Allen Hamilton, Inc.	93.RD,79581CBS10 TO#7	—	16,822	16,822
Booz Allen Hamilton, Inc.	93.RD,79581CBS10 TO#8	—	213,594	213,594
Department of Health and Human Services	93.RD,HHSN261200555009C	321,968	—	321,968
Department of Health and Human Services	93.RD,HHSN261200622001	21,183	—	21,183
Department of Health and Human Services	93.RD,HHSN261200622001C	630,631	—	630,631
Department of Health and Human Services	93.RD,HHSN261200622001C	179,980	—	179,980
Westat	93.RD,HHSN265200423601C	—	10,422	10,422
Department of Health and Human Services	93.RD,HHSN266200400042C	3,727,431	—	3,727,431
Department of Health and Human Services	93.RD,HHSN267200700039C	118,590	—	118,590
University of California San Francisco	93.RD,HHSN27220070031C	—	3,460	3,460
University of California San Francisco	93.RD,N01-AI-15416	—	30,022	30,022
Strang Cancer Prevention Center	93.RD,N01-CN-95015-MAO	—	19,756	19,756
Department of Health and Human Services	93.RD,N01-LM-3-3508	76,032	—	76,032
Northwestern University	93.RD	—	3,483	3,483
National Bureau of Economic Research	93.RD	—	23,154	23,154
Children's Hospital Los Angeles	93.RD	—	4,426	4,426
National Bureau of Economic Research	93.RD	—	35,097	35,097
University of California San Diego	93.RD	—	7,076	7,076
University of California Riverside	93.RD	—	52,997	52,997
Indiana University	93.RD	—	16,819	16,819
University of California Los Angeles	93.RD	—	3,155	3,155
Duke University	93.RD	—	7,500	7,500
Duke University	93.RD	—	8,115	8,115
Illinois Department of Children And Family Service	93.RD,1923669028	—	111,123	111,123
Department of Health and Human Services Total		188,694,918	14,966,934	203,661,852
Research and Development Cluster Total		248,210,862	29,493,958	277,704,820
Student Financial Assistance Cluster:				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007	735,050	—	735,050
Federal Family Education Loans	84.032	107,365,944	—	107,365,944
Federal Work-Study Program	84.033	2,816,469	—	2,816,469
Federal Perkins Loan Program Federal Capital Contributions	84.038	6,404,203	—	6,404,203
Federal Pell Grant Program	84.063	1,785,590	—	1,785,590
Academic Competitiveness Grants	84.375	189,900	—	189,900
National Science and Mathematics Access to Retain Talent (SMART)	84.376	129,334	—	129,334
Department of Education Total		119,426,490	—	119,426,490
Student Financial Assistance Cluster Total		119,426,490	—	119,426,490

E UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal agency and pass-through entity	CFDA numbers	Direct awards	Pass-through awards	Total expenditures
Other Federal Programs:				
Department of State:				
Department of State	19.UNK,S-ECAAE-07-CA-033(JY)	\$ 3,989	—	3,989
Department of State	19.UNK,S-ECAAE-08-CA-030(SS)	238,243	—	238,243
Department of State Total		<u>242,232</u>	<u>—</u>	<u>242,232</u>
Institute of Museum Services:				
Museums for America	45.301	(124)	—	(124)
Conservation Project Support	45.303	66,753	—	66,753
National Leadership Grants	45.312	59,223	—	59,223
Institute of Museum Services Total		<u>125,852</u>	<u>—</u>	<u>125,852</u>
National Aeronautics and Space Administration	43.UNK	—	2,000	2,000
National Endowment for the Arts:				
Promotion of the Arts Grants to Organizations and Individuals	45.024	10,000	—	10,000
Promotion of the Arts Partnership Agreements:				
Arts Midwest	45.025	—	4,999	4,999
National Endowment for the Arts Total		<u>10,000</u>	<u>4,999</u>	<u>14,999</u>
National Endowment for the Humanities:				
Promotion of the Humanities Division of Preservation and Access	45.149	435,577	—	435,577
Promotion of the Humanities Public Programs	45.164	7,769	—	7,769
National Endowment for the Humanities Total		<u>443,346</u>	<u>—</u>	<u>443,346</u>
National Science Foundation:				
Mathematical and Physical Sciences	47.049	601,347	—	601,347
Geosciences	47.050	570	—	570
Biological Sciences	47.074	116,417	—	116,417
Social, Behavioral, and Economic Sciences	47.075	3,731	—	3,731
Education and Human Resources	47.076	1,672,974	—	1,672,974
Office of Cyber infrastructure	47.080	121,107	—	121,107
National Science Foundation Total		<u>2,516,146</u>	<u>—</u>	<u>2,516,146</u>
Veterans Administration:				
Veterans Administration	64.UNK	(3,806)	—	(3,806)
Veterans Administration Total		<u>(3,806)</u>	<u>—</u>	<u>(3,806)</u>
Environmental Protection Agency:				
Science To Achieve Results (STAR) Fellowship Program	66.514	40,839	—	40,839
Environmental Protection Agency Total		<u>40,839</u>	<u>—</u>	<u>40,839</u>
Department of Energy:				
Department of Energy:				
Argonne National Laboratory	81.019	—	103,254	103,254
State Energy Program Special Projects:				
Argonne National Laboratory	81.119	—	55,159	55,159
Department of Energy:				
Argonne National Laboratory	81.149	—	108,657	108,657
Fermi National Accelerator Laboratory		—	246,578	246,578
Department of Energy Total		<u>—</u>	<u>513,648</u>	<u>513,648</u>
Department of Education:				
Title I Grants to Local Educational Agencies:				
Chicago Public Schools	84.010,PO#1497566	—	898,180	898,180
Title I Grants to Local Educational Agencies:				
Chicago Public Schools	84.010,PO#1502202	—	162,288	162,288
National Resource Centers Program for Foreign Language and Area Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program:				
Northeastern Illinois University	84.015	2,232,234	—	2,232,234
University of Illinois at Champaign		—	261,003	261,003
International Research and Studies	84.017	100,468	—	100,468
Overseas Programs – Faculty Research Abroad	84.019	101	—	101
Overseas Programs – Group Projects Abroad	84.021	61,200	—	61,200
Overseas Programs – Doctoral Dissertation Research Abroad	84.022	313,437	—	313,437
Javits Fellowships	84.170	688,443	—	688,443
Language Resource Centers	84.229	70,611	—	70,611
Gaining Early Awareness and Readiness for Undergraduate Programs:				
Northeastern Illinois University	84.334	—	(76,063)	(76,063)
Improving Teacher Quality State Grants:				
Illinois Board of Higher Education	84.367	—	54,322	54,322
Department of Education:				
Illinois Board of Higher Education	84.UNK	—	174,653	174,653
Title I Grants to Local Educational Agencies:				
Chicago Public Schools	84.010,PO#1310137	—	153,421	153,421
Title I Grants to Local Educational Agencies:				
Chicago Public Schools	84.010,PO#1336801	—	132,789	132,789
Department of Education Total		<u>3,466,494</u>	<u>2,047,497</u>	<u>5,513,991</u>

THE UNIVERSITY OF CHICAGO
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

<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 Health and Human Services:				
National Research Service Awards_Health Services Research Training	93.225	\$ 184,117	—	184,117
Mental Health Research Grants	93.242	37,042	—	37,042
Immunization Grants:				
City of Chicago Department of Health	93.268,PO#8594	—	196	196
Immunization Grants:				
City of Chicago Department of Health	93.268,PO#11298	—	33,721	33,721
Drug Abuse and Addiction Research Programs	93.279	167,341	—	167,341
Trans-NIH Research Support	93.310	57,671	—	57,671
Head Start:				
Chicago Department of Children And Youth	93.600	—	112,785	112,785
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	24,301	—	24,301
Extramural Research Programs in the Neurosciences and Neurological Disorders:				
University of Rochester	93.853	—	1,792	1,792
Microbiology and Infectious Diseases Research	93.856	7,417,749	—	7,417,749
Biomedical Research and Research Training	93.859	195,031	—	195,031
Child Health and Human Development Extramural Research	93.865	38,534	—	38,534
Grants for Training in Primary Care Medicine and Dentistry	93.884	(41,252)	—	(41,252)
HIV Emergency Relief Project Grants:				
Aids Foundation of Chicago	93.914	—	108,979	108,979
HIV Emergency Relief Project Grants:				
City of Chicago Department of Health	93.914,PO#8479	—	364,369	364,369
HIV Emergency Relief Project Grants:				
City of Chicago Department of Health	93.914,PO#5259	—	(88,932)	(88,932)
Healthy Start Initiative:				
Illinois Department of Human Services	93.926,11G7514000	—	480	480
HIV Prevention Activities Health Department Based:				
City of Chicago Department of Health	93.940,PO#11752	—	4,412	4,412
Maternal and Child Health Services Block Grant to the States:				
Illinois Department of Public Health	93.994,73789001	—	3,307	3,307
Maternal and Child Health Services Block Grant to the States:				
Illinois Department of Public Health	93.994,83789001	—	361,996	361,996
Department of Health and Human Services:				
Illinois Department of Children And Family Service	93.UNK,108310-00	—	3,531	3,531
Immunization Grants:				
City of Chicago Department of Health	93.268,PO#8594	—	(591)	(591)
Healthy Start Initiative:				
Illinois Department of Human Services	93.926,811G8514000	—	23,900	23,900
Immunization Grants:				
City of Chicago Department of Health	93.268,PO#16193 Release 2	—	53,541	53,541
Immunization Grants:				
City of Chicago Department of Health	93.268,PO#16193 Release 1	—	83,532	83,532
Maternal and Child Health Services Block Grant to the States				
Illinois Department of Human Services	93.994,11G8514000	—	108,875	108,875
Department of Health and Human Services Total		<u>8,080,534</u>	<u>1,175,893</u>	<u>9,256,427</u>
Corporation for National and Community Service:				
AmeriCorps:				
Illinois Department of Human Services	94.006,511G4827000	—	11,073	11,073
AmeriCorps:				
Illinois Department of Human Services	94.006,511G4827000	—	(750)	(750)
Corporation for National and Community Service Total		<u>—</u>	<u>10,323</u>	<u>10,323</u>
Other Federal Programs Total		<u>14,921,637</u>	<u>3,754,360</u>	<u>18,675,997</u>
TRIO Cluster:				
Department of Education:				
TRIO Upward Bound	84.047	785,694	—	785,694
TRIO McNair Post-Baccalaureate Achievement	84.217	117,255	—	117,255
TRIO Cluster Total		<u>902,949</u>	<u>—</u>	<u>902,949</u>
Total federal expenditures		<u>\$ 383,461,938</u>	<u>33,248,318</u>	<u>416,710,256</u>

See accompanying notes to schedule of expenditures of federal awards

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(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, 2008. The Schedule excludes expenditures incurred for operating Argonne National Laboratory (ANL) and the Fermi National Accelerator (Fermilab). The University, through its affiliate UChicago Argonne, LLC, operates ANL under a contract with the U.S. Department of Energy (DOE). Beginning in fiscal year 2008, the University, as a member of Fermi Research Alliance, LLC (FRA), also operates Fermilab on behalf of DOE. The Schedule also excludes expenditures incurred by the University of Chicago Medical Center. The Schedule summarizes expenditures by:

- Research and Development, Student Financial Assistance, and TRIO clusters and other 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 Programs

The University's fiscal year 2008 major programs include the research and development and student financial assistance clusters and a construction grant from the National Institute of Allergy and Infectious Diseases (NIAID).

This 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.

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

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

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Nonmajor Programs

The University's fiscal year 2008 nonmajor programs include training and scholarly programs other than those included in the research and development cluster, public service, and operations. Training and scholarly programs include awards that support faculty and student training and other scholarly activities. Public service programs include activities that are established primarily to provide noninstructional services beneficial to individuals and groups external to the University. The operations program includes awards that support the University libraries.

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 2008 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

Federal award expenditures 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, 2008 were as follows:

Research and development	\$	70,136,000
Other		659,410
Total	\$	<u>70,795,410</u>

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(3) Summary of Subrecipient Payments

Subrecipient payments charged to federal awards for the year ended June 30, 2008 were as follows:

Research and development:	
Department of Agriculture	\$ 391,113
Department of Defense	911,418
Department of Justice	23,617
National Aeronautics and Space Administration	90,041
National Science Foundation	9,048,976
Environmental Protection Agency	437,856
Department of Energy	311,191
Department of Education	357,223
Department of Health and Human Services	21,882,756
	<u>33,454,191</u>
Other:	
National Endowment for the Humanities	43,954
National Science Foundation	37,114
Department of Education	218,386
	<u>299,454</u>
Total	<u>\$ 33,753,645</u>

(4) Federal Loan Programs

Loans made to University students under the various federal loan programs for the year ended June 30, 2008 are summarized below:

University federal loans:	
Stafford	\$ 53,944,575
Perkins	6,404,203
Total University federal loans	<u>60,348,778</u>
Non-University federal loans:	
Stafford	18,671,952
Parent Loans for Undergraduate Students	34,749,417
Total non-University federal loans	<u>53,421,369</u>
Total	<u>\$ 113,770,147</u>

THE UNIVERSITY OF CHICAGO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

University federal loans outstanding at June 30, 2008 are shown below:

University federal loans:	
Stafford	\$ 85,090,754
Perkins	37,722,444
Health professions	350,007
Loans to disadvantaged students	<u>14,079</u>
Total	\$ <u><u>123,177,284</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.



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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, 2008 and 2007, and have issued our report thereon dated September 26, 2008. Our report is based on the report of other auditors insofar as it relates to the amounts included in the consolidated financial statements for The University of Chicago Medical Center. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in a separate letter dated September 26, 2008.

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

KPMG LLP

September 26, 2008



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

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

The Board of Trustees
The University of Chicago:

Compliance

We have audited the compliance of The University of Chicago (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (Compliance Supplement), that are applicable to each of its major federal programs for the year ended June 30, 2008, except those requirements discussed in the third and fourth paragraphs of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's consolidated financial statements include the operations of The University of Chicago Medical Center (the Medical Center), which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2008. Our audit, described below, did not include the operations of the Medical Center because the Medical Center is audited by other auditors.

We did not audit the University's compliance with the requirements governing the billing, collection, and due diligence functions in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by Campus Partners. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. Campus Partners' compliance with the requirements governing the functions that it performed for the University for the year ended June 30, 2008 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of Campus Partners' compliance with such requirements.

We did not audit the University's compliance with the requirements governing Reporting and Special Tests and Provisions 1 through 10 in accordance with the requirements of the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender). Those requirements govern functions performed by Illinois Designated Account Purchase Program (IDAPP). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. IDAPP's compliance with the requirements governing the functions that it performed for the University for the year ended June 30, 2008 was examined by other accountants in



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

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

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph of this section that are applicable to each of its major federal programs for the year ended June 30, 2008 other than those requirements discussed in the third and fourth paragraphs of this section. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-01 and 08-02.

Internal Control over Compliance

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

Requirements governing billing, collection, and due diligence functions in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by Campus Partners. Internal control over compliance relating to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of Campus Partners' internal control over compliance related to such functions.

Requirements governing Reporting and Special Tests and Provisions 1 through 10 in the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender) are performed by IDAPP. Internal control over compliance related to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*. Therefore, the scope of our work did not extend to internal control maintained at IDAPP. Our report does not include the results of the other accountants' examination of IDAPP's internal control over compliance related to such functions.



A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 08-01 and 08-02 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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

KPMG LLP

August 27, 2009

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

(1) Summary of Auditors' Results

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

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

THE UNIVERSITY OF CHICAGO

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

Federal Agency: US Department of Defense (DOD)
US Department of Health and Human Services (HHS)

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various (\$277,704,820)

Award Numbers: Various

Questioned Costs: None

Finding 08-01 Activities Allowed/Allowable Costs – Annual Effort Certifications

Requirement

OMB Circular A-21, *Cost Principles for Higher Education Institutions*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with higher education institutions. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be allocable, reasonable, and supported by adequate documentation. OMB Circular A-21 requires that the distribution of salaries and wages for professorial and professional personnel be supported by annual effort certifications under the plan confirmation method.

Additionally, OMB Circular A-110, *Uniform Administrative Requirements for Grant and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, 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 procedures to ensure payroll expenditures are properly supported in accordance with OMB Circular A-21.

Condition Found

During our testwork over 60 payroll expenditures (totaling \$105,741), we noted two expenditures aggregating \$4,890, for which signed annual effort certifications were not on file. Upon further inquiries of University management, it was determined that annual effort certifications had not been signed for several personnel in the Pediatrics department. As Pediatrics department personnel had not updated planned effort allocations for changes throughout the year in accordance with the University's established policies and procedures, the annual effort certifications were believed to be inaccurate and could not be completed in a timely manner. Payroll, fringe benefit, and indirect costs charged to Research and Development cluster projects administered by the Pediatrics department approximated \$4,194,000, \$841,000, and \$2,347,000, respectively, during the year ended June 30, 2008. Total expenditures charged to the Research and Development Cluster projects administered by the Pediatrics department were \$8,746,000 for the year ended June 30, 2008.

Prior to the issuance of our report, University management represented that all missing annual effort certifications were completed for the Pediatrics department and corrections were made for any inaccurate payroll and fringe benefit charges to the federal programs and indirect costs were recomputed for each

THE UNIVERSITY OF CHICAGO

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

grant. These corrections resulted in \$2,017,170 of expenditures being reclassified into the federal ledger and \$1,930,275 of expenditures being reclassified out of the federal ledger for fiscal year 2008. Our expanded testwork identified no additional exceptions.

Payroll, fringe benefit, and indirect costs charged to the Research and Development Cluster program approximated \$90,625,000, \$16,617,000, and \$70,136,000, respectively, during the year ended June 30, 2008. Total expenditures charged to the Research and Development Cluster program were \$277,704,820 for the year ended June 30, 2008.

Effect

Failure to properly process changes to effort allocations and complete annual effort certifications in a timely manner may result in unallowable costs being charged to federal programs.

Recommendation

We recommend the University implement additional monitoring procedures to ensure effort certifications are properly completed by all departments in a timely manner in accordance with federal regulations and University policies and procedures.

Views of Responsible Officials

The University agrees with the recommendation and has taken the following steps. The University's Biological Science Division, Office of Finance has implemented monitoring and follow-up procedures for all of its effort certification statements. The University is distributing its preliminary certification statements one month earlier in order to give departments additional time to review salary expense distributions and to submit necessary corrections prior to the production of final Certification Statements.

THE UNIVERSITY OF CHICAGO

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Federal Agency: US Department of Agriculture (USDA)
US Department of Defense (DOD)
US Department of Housing and Urban Development (USHUD)
US Department of Justice (USDOJ)
US Department of State (USDOS)
National Aeronautics and Space Administration (NASA)
National Endowments for the Humanities (NEH)
National Science Foundation (NSF)
US Department of Veterans Administration (USDVA)
US Environmental Protection Agency (USEPA)
US Department of Energy (USDOE)
US Department of Education (USDE)
US Department of Health and Human Services (USDHHS)

Program Name: Research and Development Cluster

CFDA # and Program Expenditures: Various (\$277,704,820)

Award Numbers: 5 U54 CA121852
5 P01 MH060970
3 P30 CA014599
HHSN226200400042C

Questioned Costs: \$44,238

Finding 08-02 Activities Allowed/Allowable Costs – Equipment Expenditures

Requirement

OMB Circular A-21, *Cost Principles for Higher Education Institutions*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with higher education institutions. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be allocable, reasonable, and supported by adequate documentation.

Additionally, OMB Circular A-110, *Uniform Administrative Requirements for Grant and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, 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 procedures to ensure expenditures are reported in the appropriate general ledger accounts.

THE UNIVERSITY OF CHICAGO
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

Condition Found

During our testwork over 60 nonpayroll expenditures (totaling \$1,615,982), we noted four expenditures in the amount of \$82,687, which were incorrectly classified in the grant project ledger as supplies expense instead of as equipment expense. As a result of this misclassification, these expenditures were improperly included in the indirect cost base for these research projects and the projects were over-charged indirect costs in the amount of \$44,238. Total indirect costs charged to the Research and Development Cluster program totaled \$70,136,000 during the year ended June 30, 2008.

Effect

Failure to properly classify expenditures within project account ledgers may result in unallowable costs being charged to federal programs.

Recommendation

We recommend the University reinforces its established procedures to ensure expenditures are properly classified in project account ledgers.

Views of Responsible Officials

The University agrees with the recommendation. The University has brought the errors to the attention of the departmental administrators involved in the transaction, reclassified \$82,687 of supply expenditures to equipment, and removed \$44,238 of indirect cost charges from the affected awards. In addition, the University will reinforce to sponsored award administrators the importance of classifying award expenditures to correct object codes.