Agenda

• Updates/Announcements – Katrina Spencer

• Space Cost Allocation – Stephanie Hunter, Budget Office

• Delphi Budget Training – Murad Goziev, Budget Office

• Finance & Administration Updates – Brett Padgett, Associate VP for Finance

• Physical Science Division Budget Overview – Mike Grosse, Sr. Associate Dean of Finance & Strategy

• University Financial Results for FY18 - John Kroll, Associate VP for Finance
SPACE COST ALLOCATION
# Space Cost Allocation

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior Space Cost Allocation Base</strong></td>
<td>962,270</td>
<td>2,562,235</td>
<td>1,599,965</td>
<td>2,590,251</td>
</tr>
<tr>
<td><strong>New Space Cost Allocation Base</strong></td>
<td>1,557,174</td>
<td>1,056,488</td>
<td>(500,686)</td>
<td>1,066,539</td>
</tr>
<tr>
<td><strong>Facilities Operations &amp; Maintenance</strong></td>
<td>45,994</td>
<td>655,441</td>
<td>609,447</td>
<td>687,388</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>24,393</td>
<td>159,926</td>
<td>135,533</td>
<td>171,733</td>
</tr>
<tr>
<td><strong>Internal Rent charged by Facilities Services</strong></td>
<td>3,401,274</td>
<td></td>
<td>(3,401,274)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,991,105</td>
<td>4,434,090</td>
<td>(1,557,015)</td>
<td>4,515,911</td>
</tr>
</tbody>
</table>

- Two main pieces of data:
  - Adjustment to target related to space cost allocations.
  - Estimate of FY20 space cost allocations.
# Space Cost Allocation

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prior Space Cost</td>
<td>New Space Cost</td>
<td>Space Cost</td>
<td>FY20</td>
</tr>
<tr>
<td></td>
<td>Allocation Base*</td>
<td>Allocation Base*</td>
<td>Allocation Base</td>
<td>Estimate**</td>
</tr>
<tr>
<td>Depreciation - Building</td>
<td>962,270</td>
<td>2,562,235</td>
<td>1,599,965</td>
<td>2,590,251</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>1,557,174</td>
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<td></td>
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</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>5,991,105</td>
<td>4,434,090</td>
<td>(1,557,015)</td>
<td>4,515,911</td>
</tr>
</tbody>
</table>

- This shows the net difference in methodology changes, but is still based on occupancy as of 6/30/2017.
# Space Cost Allocation

<table>
<thead>
<tr>
<th></th>
<th>A (Prior Space Cost Allocation Base*)</th>
<th>B (Removal of Thirteenth Month of Interest)</th>
<th>C (Moving Internal Rents into SCA)</th>
<th>D (Addition of Centrally Paid Rents)</th>
<th>E (Unit Occupies Space Added to Archibus Retroactively)</th>
<th>F (Unit Occupies Building where Space was Added to Archibus Retroactively)</th>
<th>G (New Space Cost Allocation Base*) (A+B+C+D+E+F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation - Building</td>
<td>962,270</td>
<td>-</td>
<td>-</td>
<td>1,892,475</td>
<td>23,646</td>
<td>(316,155)</td>
<td>2,562,235</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>1,557,174</td>
<td>(87,893)</td>
<td>-</td>
<td>-</td>
<td>41,686</td>
<td>(454,479)</td>
<td>1,056,488</td>
</tr>
<tr>
<td>Facilities Operations &amp; Maintenance</td>
<td>45,994</td>
<td>-</td>
<td>610,078</td>
<td>-</td>
<td>-</td>
<td>(631)</td>
<td>655,441</td>
</tr>
<tr>
<td>Utilities</td>
<td>24,393</td>
<td>-</td>
<td>135,804</td>
<td>-</td>
<td>-</td>
<td>(271)</td>
<td>159,926</td>
</tr>
<tr>
<td>Internal Rent charged by Facilities Services</td>
<td>3,401,274</td>
<td>-</td>
<td>(3,401,274)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>5,991,105</td>
<td>(87,893)</td>
<td>(2,655,392)</td>
<td>1,892,475</td>
<td>65,332</td>
<td>(771,536)</td>
<td>4,434,090</td>
</tr>
</tbody>
</table>

* Based on data as of 06/30/2017 for space occupancy as well as costs for depreciation/rent, interest, O&M, and utilities.

- Column A: Previous Space Cost Allocation base communicated during FY19 Budget preparation
- Column B: Calculation of excess interest included in prior Space Cost Allocation base
- Column C: Adjustment for properties previously charged internal rent which are being moved into Space Cost Allocation
- Column D: Addition of costs for centrally-paid rents for 401 N Michigan and Harper Court
- Column E: Additional space costs due to retroactive corrections made to Archibus which increased the NASF for the unit
- Column E: Reduction in unit's space costs due to retroactive corrections made to Archibus which increased the NASF for the building, but lowered unit's % of total building costs.
- Column G: Sum of columns A through F

- This quantifies the differences due to each of the methodology changes, but is still tied to occupancy as of 6/30/2017.
## Space Cost Allocation

<table>
<thead>
<tr>
<th></th>
<th>A Prior Space Cost Allocation Base*</th>
<th>B New Space Cost Allocation Base*</th>
<th>C Space Cost Allocation Base Adjustment (B-A)</th>
<th>D FY20 Estimate**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation - Building</td>
<td>962,270</td>
<td>2,562,235</td>
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</tr>
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<td><strong>Total</strong></td>
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<td>4,434,090</td>
<td>(1,557,015)</td>
<td>4,515,911</td>
</tr>
</tbody>
</table>

- This shows the estimated space cost allocations for FY20 based on the unit’s occupancy as of 12/31/2018.
- This will likely be different than the amount included in your target as units have made changes to their occupancy footprint, as well as increases in interest, O&M, and utility rates over time.
FY19 BUDGET PREPARATION
# FY20 Budget Training

<table>
<thead>
<tr>
<th>Delphi</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Session 1</td>
<td>March 5, 10:00 – 11:30 am</td>
<td>Crerar, Room 008</td>
</tr>
<tr>
<td>Session 2</td>
<td>March 6, 1:00 – 2:30 pm</td>
<td>Drexel, Room 146</td>
</tr>
<tr>
<td>Session 3</td>
<td>March 12, 10:00 – 11:30 am</td>
<td>Crerar, Room 008</td>
</tr>
<tr>
<td>Session 4</td>
<td>March 13, 10:00 – 11:30 am</td>
<td>Drexel, Room 146</td>
</tr>
<tr>
<td>Session 5</td>
<td>April 3, 10:00 – 11:30 am</td>
<td>Crerar, Room 008</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Smartview</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Session 1</td>
<td>March 6, 10:00 – 11:30 am</td>
<td>Crerar, Room 008</td>
</tr>
<tr>
<td>Session 2</td>
<td>March 14, 3:00 – 4:30 pm</td>
<td>Drexel, Room 146</td>
</tr>
<tr>
<td>Session 3</td>
<td>March 27, 10:00 – 11:30 am</td>
<td>Crerar, Room 008</td>
</tr>
<tr>
<td>Session 4</td>
<td>March 28, 1:00 – 2:30 am</td>
<td>Drexel, Room 146</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Open Session</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Session 1</td>
<td>April 8, 1:00 – 2:30 pm</td>
<td>Drexel, Room 146</td>
</tr>
<tr>
<td>Session 2</td>
<td>April 9, 10:00 – 11:30 am</td>
<td>Crerar, Room 008</td>
</tr>
<tr>
<td>Session 3</td>
<td>April 10, 1:00 – 2:30 pm</td>
<td>Drexel, Room 146</td>
</tr>
</tbody>
</table>
Sign Up

Training site
https://training.uchicago.edu/

Delphi Training
http://training.uchicago.edu/course_detail.php?course_id=1873

Smartview Training
http://training.uchicago.edu/course_detail.php?course_id=1874

Open Session
http://training.uchicago.edu/course_detail.php?course_id=1875
PSD Budgeting Process
Seven Departments

- Astronomy & Astrophysics
- Statistics
- Physics
- Chemistry
- Computer Science
- Mathematics
- Geophysical Sciences
PSD by the Numbers

- 200 Tenure Track Faculty
- 175 Post-Docs
- 100 Lecturers/Sr. Lecturers
- 750 PhD Students
- 500 Masters Students
- 150 Support Staff
- 25 UC STEM Ed Employees

- 1,400 paychecks per month
- $170M of activity + $30M of space charges
Pre- GAAP

Unrestricted Operating Budget + Restricted Revenue and Expenses + Core Facilities + UChicago STEM ED + Masters Programs + Unrestricted Research Accounts = Net Position
GAAP Model

Pre-GAAP Elements

Undergrad Tuition Allocation

Net Position

Space Charge
Utility Expense
External Interest
Depreciation
The Good News

High Demand for STEM Education
Any Dark Clouds?
Faculty

• Faculty Salaries
  – 3% increase cost the division $1M

• Cost of Experimental Science
  – Start-Up packages begin at $2.5M
Questions?
Introduction

• The University of Chicago audited financial statements include the financial activity of the University, the Medical Center, and the Marine Biological Laboratory (MBL).

• The University maintains its accounts and manages its operations in accordance with the principles of fund 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 FASB and the AICPA.
  – Require that operations be measured based on the existence or absence of donor-imposed restrictions.
  – This is accomplished by classification of fund balances into two classes of net assets – without donor restrictions and with donor restrictions.

• Operating results reflect all activity associated with net assets without donor restrictions except for those items associated with:
  – Long-term investments
  – Actuarial adjustments to self-insurance liabilities
  – Changes in postretirement benefit obligations
  – Changes in the fair value of interest rate swap agreements
  – Unamortized capital gifts associated with the acquisition or construction of long-lived assets; and
  – Other infrequent gains and losses
FY2018 Highlights

• The University of Chicago consolidated audit report received an “unmodified” opinion from KPMG.

• Primarily driven by pledges and other non-operating gifts, investment gains in excess of endowment payout, and an increase in the discount rate resulting in a sharp decrease in pension and other postretirement benefit obligations, consolidated net assets increased by $328.5 million to $8.7 billion at June 30, 2018.

• The consolidated University ended the fiscal year with a $3.8 million operating surplus as compared to a $27.6 million surplus in FY2017.

• On a stand-alone basis, the University ended the fiscal year with a $24.6 million operating deficit, net of a withdrawal of $50.0 million of Funds Functioning as Endowment (FFE).

• Following is a high-level summary of the University’s consolidated balance sheet as of June 30, 2018 and the FY2018 consolidated changes in net assets and results of operations.
Consolidated Balance Sheet – Summary

Following is a high-level summary of the consolidated balance sheet as of June 30, 2018 with comparative totals as of June 30, 2017.

($ in thousands)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>University</td>
<td>Medical Center</td>
</tr>
<tr>
<td>Cash</td>
<td>$ 66,770</td>
<td>$ 211,751</td>
</tr>
<tr>
<td>Patient accounts receivable</td>
<td>26,028</td>
<td>347,870</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>595,274</td>
<td>2,487</td>
</tr>
<tr>
<td>Endowment</td>
<td>6,925,642</td>
<td>919,474</td>
</tr>
<tr>
<td>Other investments</td>
<td>818,136</td>
<td>289,811</td>
</tr>
<tr>
<td>Land, buildings, equipment, and books</td>
<td>3,210,925</td>
<td>1,602,751</td>
</tr>
<tr>
<td>Other assets</td>
<td>317,911</td>
<td>141,939</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 11,960,686</td>
<td>$ 3,516,083</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS                  |                      |                      |
| Liabilities:                                |                      |                      |
| Accounts payable and accrued liabilities    | $ 444,310             | $ 608,257            | $ 7,647              | $ 1,060,214 | $ 1,005,745 |
| Self-insurance liability                    | 214,381               | 46,617               | -                    | 260,998      | 287,581      |
| Pension and other postretirement benefit obligations | 434,400         | -                    | -                    | 434,400      | 491,828      |
| Notes and bonds payable                     | 3,765,371             | 1,028,452             | 26,409               | 4,820,232    | 4,691,832    |
| Other liabilities                           | 347,221               | 12,490                | 4,549                | 364,260      | 340,667      |
| Total liabilities                           | 5,205,683             | 1,695,816             | 38,605               | 6,940,104    | 6,817,653    |

Net Assets: 6,755,003 1,820,267 172,485 8,747,755 8,419,235

Total liabilities and net assets 11,960,686 3,516,083 211,090 15,687,859 15,236,888
Consolidated Changes in Net Assets – Summary

Primarily driven by pledges and other non-operating gifts, investment gains in excess of the endowment payout, and an increase in the discount rate resulting in a sharp decrease in pension and other postretirement benefit obligations, consolidated net assets of the University increased by $328.5 million in FY2018 from $8.4 billion at June 30, 2017 to $8.7 billion at June 30, 2018. The following table provides a more detailed analysis of this increase.

($ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>University</th>
<th>Medical Center</th>
<th>MBL</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP excess (deficiency) of operating revenue over expenses before FFE draw</td>
<td>$ (74,578)</td>
<td>$ 40,254</td>
<td>$(11,842)</td>
<td>$(46,166)</td>
</tr>
<tr>
<td>FFE draw</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>50,000</td>
</tr>
<tr>
<td>GAAP excess (deficiency) of operating revenue over expenses</td>
<td>(24,578)</td>
<td>40,254</td>
<td>(11,842)</td>
<td>3,834</td>
</tr>
<tr>
<td>Pledges and other non-operating gifts</td>
<td>238,578</td>
<td>5,048</td>
<td>2,764</td>
<td>246,390</td>
</tr>
<tr>
<td>Investment gains, net of endowment payout</td>
<td>121,101</td>
<td>20,557</td>
<td>1,857</td>
<td>143,515</td>
</tr>
<tr>
<td>Draw from FFE in support of operations</td>
<td>(50,000)</td>
<td>-</td>
<td>-</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Pension plan curtailment (reduction of unfunded liability)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pension and other postretirement benefit plan changes, net of benefit expense</td>
<td>80,758</td>
<td>2,661</td>
<td>(98)</td>
<td>83,321</td>
</tr>
<tr>
<td>Change in value of derivative instruments</td>
<td>11,281</td>
<td>24,635</td>
<td>1,291</td>
<td>37,207</td>
</tr>
<tr>
<td>Loss on debt refinancing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>University operating support provided to MBL</td>
<td>(10,828)</td>
<td>-</td>
<td>10,828</td>
<td>-</td>
</tr>
<tr>
<td>Contribution of Ingalls net assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other changes</td>
<td>(89,430)</td>
<td>(43,833)</td>
<td>(2,484)</td>
<td>(135,747)</td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>276,882</td>
<td>49,322</td>
<td>2,316</td>
<td>328,520</td>
</tr>
<tr>
<td>Net assets beginning of year</td>
<td>6,478,121</td>
<td>1,770,945</td>
<td>170,169</td>
<td>8,419,235</td>
</tr>
<tr>
<td>Net assets end of year</td>
<td>$ 6,755,003</td>
<td>$ 1,820,267</td>
<td>$ 172,485</td>
<td>$ 8,747,755</td>
</tr>
</tbody>
</table>
Consolidated Results of Operations – Summary

Following is a high-level summary of the FY2018 $3.8 million consolidated operating surplus as compared to the $27.6 million surplus generated in FY2017:

($ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2018 University</th>
<th>2018 Medical Center</th>
<th>2018 MBL</th>
<th>2018 Consolidated</th>
<th>2017 Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition-net of student aid</td>
<td>$467,297</td>
<td>$</td>
<td>$501</td>
<td>$467,798</td>
<td>$424,717</td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>335,779</td>
<td>$</td>
<td>$12,710</td>
<td>348,489</td>
<td>367,577</td>
</tr>
<tr>
<td>Private gifts, grants, and contracts</td>
<td>408,272</td>
<td>$7,501</td>
<td>$8,618</td>
<td>424,391</td>
<td>369,819</td>
</tr>
<tr>
<td>Endowment payout</td>
<td>404,462</td>
<td>$54,640</td>
<td>$4,431</td>
<td>463,533</td>
<td>444,583</td>
</tr>
<tr>
<td>Patient care</td>
<td>286,768</td>
<td>$2,000,117</td>
<td>$</td>
<td>2,286,885</td>
<td>2,128,591</td>
</tr>
<tr>
<td>Auxiliaries and other income</td>
<td>472,664</td>
<td>$157,235</td>
<td>$5,097</td>
<td>634,996</td>
<td>566,301</td>
</tr>
<tr>
<td>Total revenue</td>
<td>2,375,242</td>
<td>2,219,493</td>
<td>31,357</td>
<td>4,626,092</td>
<td>4,301,588</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>1,539,784</td>
<td>943,550</td>
<td>$22,201</td>
<td>2,505,535</td>
<td>2,344,682</td>
</tr>
<tr>
<td>Depreciation</td>
<td>202,406</td>
<td>125,032</td>
<td>$4,417</td>
<td>331,855</td>
<td>321,327</td>
</tr>
<tr>
<td>Interest</td>
<td>132,333</td>
<td>43,924</td>
<td>$1,019</td>
<td>177,276</td>
<td>166,571</td>
</tr>
<tr>
<td>Supplies, services, and other expenses</td>
<td>575,297</td>
<td>1,066,733</td>
<td>15,562</td>
<td>1,657,592</td>
<td>1,495,072</td>
</tr>
<tr>
<td>Total expenses</td>
<td>2,449,820</td>
<td>2,179,239</td>
<td>43,199</td>
<td>4,672,258</td>
<td>4,327,652</td>
</tr>
<tr>
<td>Subtotal</td>
<td>(74,578)</td>
<td>$40,254</td>
<td>(11,842)</td>
<td>(46,166)</td>
<td>(26,064)</td>
</tr>
<tr>
<td>Net gain on sale of assets</td>
<td>-</td>
<td>$</td>
<td>-</td>
<td>-</td>
<td>44,687</td>
</tr>
<tr>
<td>Excess (deficiency) of operating revenue over expenses before FFE draw</td>
<td>(74,578)</td>
<td>$40,254</td>
<td>(11,842)</td>
<td>(46,166)</td>
<td>18,623</td>
</tr>
<tr>
<td>FFE draw</td>
<td>50,000</td>
<td>$</td>
<td>-</td>
<td>50,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Excess (deficiency) of operating revenue over expenses</td>
<td>$ (24,578)</td>
<td>$40,254</td>
<td>(11,842)</td>
<td>$3,834</td>
<td>$27,623</td>
</tr>
</tbody>
</table>
Balance Sheet – University Only

Following is a comparative look at the University’s stand-alone balance sheet over the past five fiscal years.

($ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$19,985</td>
<td>$31,636</td>
<td>$48,579</td>
<td>$11,060</td>
<td>$66,770</td>
</tr>
<tr>
<td>Patient accounts receivable</td>
<td>20,180</td>
<td>22,342</td>
<td>21,971</td>
<td>30,723</td>
<td>26,028</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>503,267</td>
<td>519,136</td>
<td>603,814</td>
<td>648,341</td>
<td>595,274</td>
</tr>
<tr>
<td>Endowment</td>
<td>6,460,254</td>
<td>6,461,809</td>
<td>6,045,003</td>
<td>6,536,946</td>
<td>6,925,642</td>
</tr>
<tr>
<td>Other investments</td>
<td>666,527</td>
<td>796,611</td>
<td>938,343</td>
<td>853,850</td>
<td>818,136</td>
</tr>
<tr>
<td>Land, buildings, equipment, and books</td>
<td>2,935,803</td>
<td>3,064,814</td>
<td>3,185,722</td>
<td>3,180,298</td>
<td>3,210,925</td>
</tr>
<tr>
<td>Other assets</td>
<td>241,687</td>
<td>283,085</td>
<td>271,595</td>
<td>330,548</td>
<td>317,911</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$10,847,703</td>
<td>$11,179,433</td>
<td>$11,115,027</td>
<td>$11,591,766</td>
<td>$11,960,686</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS |            |            |            |            |            |
| Liabilities:              |            |            |            |            |            |
| Accounts payable and accrued liabilities | $397,557 | $394,768 | $409,990 | $413,362 | $444,310 |
| Self-insurance liability  | 249,521    | 262,726    | 250,642    | 249,864    | 214,381    |
| Pension and other postretirement benefit obligations | 447,418 | 469,860 | 557,136 | 491,828 | 434,400 |
| Notes and bonds payable   | 2,830,162  | 3,285,364  | 3,628,943  | 3,630,376  | 3,765,371  |
| Other liabilities         | 236,926    | 254,925    | 310,675    | 328,215    | 347,221    |
| **Total liabilities**     | 4,161,584  | 4,667,643  | 5,157,386  | 5,113,645  | 5,205,683  |
| **Net Assets**            | 6,686,119  | 6,511,790  | 5,957,641  | 6,478,121  | 6,755,003  |
| **Total liabilities and net assets** | $10,847,703| $11,179,433| $11,115,027| $11,591,766| $11,960,686|
# Changes in Net Assets - University Only

Following is a summary of the University’s stand-alone change in net assets for the past five fiscal years.

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GAAP (deficiency) of operating revenue over expenses before gain on sale of residential properties, partial pension plan curtailment, and FFE draw</strong></td>
<td>$(22,958)</td>
<td>$(64,953)</td>
<td>$(131,852)</td>
<td>$(77,075)</td>
<td>$(74,578)</td>
</tr>
<tr>
<td><strong>Net gain on sale of residential properties</strong></td>
<td>-</td>
<td>8,217</td>
<td>61,053</td>
<td>44,687</td>
<td>-</td>
</tr>
<tr>
<td><strong>Partial curtailment of pension plan</strong></td>
<td>-</td>
<td>-</td>
<td>7,119</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>FFE draw</strong></td>
<td>26,736</td>
<td>33,680</td>
<td>9,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>GAAP (deficiency) of operating revenue over expenses</strong></td>
<td>$(22,958)</td>
<td>$(30,000)</td>
<td>$(30,000)</td>
<td>$(23,388)</td>
<td>$(24,578)</td>
</tr>
<tr>
<td><strong>Pledges and other non-operating gifts</strong></td>
<td>282,720</td>
<td>219,355</td>
<td>312,844</td>
<td>327,674</td>
<td>238,578</td>
</tr>
<tr>
<td><strong>Investment gains (losses), net of endowment payout</strong></td>
<td>420,586</td>
<td>(128,911)</td>
<td>(533,970)</td>
<td>267,573</td>
<td>121,101</td>
</tr>
<tr>
<td><strong>Draw from FFE in support of operations</strong></td>
<td>-</td>
<td>(26,736)</td>
<td>(33,680)</td>
<td>(9,000)</td>
<td>(50,000)</td>
</tr>
<tr>
<td><strong>Pension plan curtailment (reduction of unfunded liability)</strong></td>
<td>-</td>
<td>-</td>
<td>45,926</td>
<td>64,241</td>
<td>-</td>
</tr>
<tr>
<td><strong>Pension and other postretirement benefit plan changes, net of benefit expense</strong></td>
<td>32,041</td>
<td>(21,959)</td>
<td>(138,423)</td>
<td>31,778</td>
<td>80,758</td>
</tr>
<tr>
<td><strong>Change in value of derivative instruments</strong></td>
<td>(1,631)</td>
<td>(6,083)</td>
<td>(21,545)</td>
<td>20,531</td>
<td>11,281</td>
</tr>
<tr>
<td><strong>Loss on debt refinancing</strong></td>
<td>-</td>
<td>(70,258)</td>
<td>(16,946)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Operating support to MBL</strong></td>
<td>(7,925)</td>
<td>(13,165)</td>
<td>(9,010)</td>
<td>(9,575)</td>
<td>(10,828)</td>
</tr>
<tr>
<td><strong>Other changes</strong></td>
<td>(84,245)</td>
<td>(96,572)</td>
<td>(129,345)</td>
<td>(149,354)</td>
<td>(89,430)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in net assets</strong></td>
<td>618,588</td>
<td>(174,329)</td>
<td>(554,149)</td>
<td>520,480</td>
<td>276,882</td>
</tr>
<tr>
<td><strong>Net assets beginning of year</strong></td>
<td>6,067,531</td>
<td>6,686,119</td>
<td>6,511,790</td>
<td>5,957,641</td>
<td>6,478,121</td>
</tr>
<tr>
<td><strong>Net assets end of year</strong></td>
<td>$ 6,686,119</td>
<td>$ 6,511,790</td>
<td>$ 5,957,641</td>
<td>$ 6,478,121</td>
<td>$ 6,755,003</td>
</tr>
</tbody>
</table>
Changes in Net Assets – University Only (continued)

• The FY2018 increase in University net assets of $276.9 million consists of the following:

<table>
<thead>
<tr>
<th>($ in thousands)</th>
<th>FY2018</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP (deficiency) of operating revenue over expenses</td>
<td>$ (24,578)</td>
<td>$ (23,388)</td>
</tr>
<tr>
<td>Pledges and other non-operating gifts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For operations when received</td>
<td>144,844</td>
<td>225,189</td>
</tr>
<tr>
<td>For endowment</td>
<td>93,734</td>
<td>102,485</td>
</tr>
<tr>
<td>Investment gains, net of endowment payout</td>
<td>121,101</td>
<td>267,573</td>
</tr>
<tr>
<td>Draw from FFE in support of operations</td>
<td>(50,000)</td>
<td>(9,000)</td>
</tr>
<tr>
<td>Pension plan curtailment reduction of unfunded liability</td>
<td>-</td>
<td>64,241</td>
</tr>
<tr>
<td>Decrease in pension and other postretirement benefit obligations</td>
<td>80,758</td>
<td>31,778</td>
</tr>
<tr>
<td>Change in value of derivative instruments</td>
<td>11,281</td>
<td>20,531</td>
</tr>
<tr>
<td>Operating support provided to MBL</td>
<td>(10,828)</td>
<td>(9,575)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(89,430)</td>
<td>(149,354)</td>
</tr>
<tr>
<td>Total increase in net assets</td>
<td>$ 276,882</td>
<td>$ 520,480</td>
</tr>
</tbody>
</table>

• **GAAP operating results:** Operating results reflect all transactions increasing or decreasing net assets without donor restrictions except those items associated with long-term investment, actuarial adjustments to self-insurance liabilities, changes in postretirement benefit obligations other than service cost, changes in the fair value of derivative instruments, unamortized capital gifts to acquire or construct long-lived assets, and other infrequent gains and losses.

• **Non-operating gifts:** Non-operating gifts are comprised primarily of gift pledges which, for accounting purposes, are valued net of a time value of money discount and a provision for uncollectible amounts.

• **Investment Gains:** During FY2018, investment return of $576.5 million, generated primarily from the endowment, was sufficient to support endowment payout of $455.4 million. In accordance with the University’s payout policy, investment return not required to support the payout was reinvested in the endowment.

• **Pension plan curtailment (reduction of unfunded liability):** Effective January 1, 2017, the Medical Center employees participating in the defined benefit pension plan were moved to the enhanced defined contribution plan, resulting in a reduction of the defined benefit pension plan’s unfunded liability.

• **Pension and other postretirement benefits obligations:** The FY2018 decrease in the pension and post retirement benefit obligation was primarily driven by a sharp increase in the discount rate used to value the obligations from 3.7 percent at June 30, 2017 to 4.2 percent at June 30, 2018.
Changes in Net Assets – University Only (continued)

- **Change in value of derivative instruments:** The University has two variable-to-fixed interest rate swap agreements which support specific variable rate bond issues. An increase in interest rates at June 30, 2018 resulted in a mark-to-market non-operating gain of $11.3 million which in-turn decreased the interest rate swap liability from $46.2 million at June 30, 2017 to $34.9 million at June 30, 2018.

- **Operating support provided to MBL:** As part of the affiliation, the University provided MBL with operating support of $10.8 million in FY2018.

- **Other changes** are comprised of the following:


<table>
<thead>
<tr>
<th>($ in thousands)</th>
<th>FY 2018</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pledge payments and restricted gifts released into operations</td>
<td>$ (126,365)</td>
<td>$ (138,133)</td>
</tr>
<tr>
<td>Pledge write-offs and other adjustments</td>
<td>$ 1,887</td>
<td>$ (12,541)</td>
</tr>
<tr>
<td>Actuarial adjustment for self-insurance liability and annuities payable</td>
<td>$ 14,302</td>
<td>$ 8,713</td>
</tr>
<tr>
<td>Non-service cost for the defined benefit pension plan and other postretirement benefits</td>
<td>$ (20,440)</td>
<td>$ (16,195)</td>
</tr>
<tr>
<td>Amortization of gifts for capital construction</td>
<td>$ (10,278)</td>
<td>$ (10,302)</td>
</tr>
<tr>
<td>Academic support received from the Medical Center, net of expenditures</td>
<td>$ 28,515</td>
<td>$ 10,748</td>
</tr>
<tr>
<td>Other - net</td>
<td>$ 22,949</td>
<td>$ 8,356</td>
</tr>
<tr>
<td><strong>Total other changes in net assets</strong></td>
<td>$ (89,430)</td>
<td>$ (149,354)</td>
</tr>
</tbody>
</table>
Results of Operations – University Only

Overall, the University’s FY2018 operating results benefited from another sharp increase in expendable gifts and a 10 percent increase in net tuition. Additionally, in FY2017 the University adopted a new accounting standard that reclassifies non-service related pension and other postretirement benefit costs from operating expense to non-operating changes in net assets, amounting to $20.4 million in FY2018 and $16.2 million in FY2017.

Following is a summary of the University operating results over the past five fiscal years:

($ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition-net of student aid</td>
<td>$378,254</td>
<td>$388,232</td>
<td>$394,935</td>
<td>$424,228</td>
<td>$467,297</td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>329,212</td>
<td>341,430</td>
<td>350,128</td>
<td>355,032</td>
<td>335,779</td>
</tr>
<tr>
<td>Private gifts, grants, and contracts</td>
<td>302,194</td>
<td>318,989</td>
<td>294,669</td>
<td>361,646</td>
<td>408,272</td>
</tr>
<tr>
<td>Endowment payout</td>
<td>344,338</td>
<td>362,819</td>
<td>379,701</td>
<td>394,867</td>
<td>404,462</td>
</tr>
<tr>
<td>Patient care</td>
<td>239,985</td>
<td>239,352</td>
<td>256,199</td>
<td>271,920</td>
<td>286,768</td>
</tr>
<tr>
<td>Auxiliaries and other income</td>
<td>455,588</td>
<td>483,115</td>
<td>459,818</td>
<td>476,969</td>
<td>472,664</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>$2,049,571</td>
<td>$2,133,937</td>
<td>$2,135,450</td>
<td>$2,284,662</td>
<td>$2,375,242</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>1,307,490</td>
<td>1,376,211</td>
<td>1,422,735</td>
<td>1,463,317</td>
<td>1,539,784</td>
</tr>
<tr>
<td>Depreciation</td>
<td>159,723</td>
<td>169,372</td>
<td>188,923</td>
<td>199,581</td>
<td>202,406</td>
</tr>
<tr>
<td>Interest</td>
<td>95,283</td>
<td>94,053</td>
<td>111,227</td>
<td>126,096</td>
<td>132,333</td>
</tr>
<tr>
<td>Supplies, services, and other expenses</td>
<td>510,033</td>
<td>559,254</td>
<td>544,417</td>
<td>572,743</td>
<td>575,297</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>2,072,529</td>
<td>2,198,890</td>
<td>2,267,302</td>
<td>2,361,737</td>
<td>2,449,820</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>(22,958)</td>
<td>(64,953)</td>
<td>(131,852)</td>
<td>(77,075)</td>
<td>(74,578)</td>
</tr>
<tr>
<td>Net gain on sale of assets</td>
<td>-</td>
<td>8,217</td>
<td>61,053</td>
<td>44,687</td>
<td>-</td>
</tr>
<tr>
<td>Partial curtailment of the defined benefit pension plan</td>
<td>-</td>
<td>-</td>
<td>7,119</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(Deficiency) of operating revenue over expenses before FFE draw</td>
<td>(22,958)</td>
<td>(56,736)</td>
<td>(63,680)</td>
<td>(32,388)</td>
<td>(74,578)</td>
</tr>
<tr>
<td>FFE draw</td>
<td>-</td>
<td>26,736</td>
<td>33,680</td>
<td>9,000</td>
<td>50,000</td>
</tr>
<tr>
<td>(Deficiency) of operating revenue over expenses</td>
<td>$ (22,958)</td>
<td>$ (30,000)</td>
<td>$ (30,000)</td>
<td>$ (23,388)</td>
<td>$ (24,578)</td>
</tr>
</tbody>
</table>
Notes and Bonds Payable – University Only

• Transactions – During FY2018, the University:
  – Issued $164.7 million of fixed rate bonds through the Illinois Finance Authority (IFA). Proceeds were used to 1) refinance $72.3 million of taxable commercial paper, which was previously used to redeem variable rate bonds; and 2) finance the construction and renovation of certain educational and research facilities.

• Liquidity Facilities Supporting Variable Rate Debt:
  – The University has four revolving credit agreements totaling $400 million, which support variable rate debt in the event of a failed remarketing.

• Bank Lines of Credit Supporting Operations:
  – As of June 30, 2018, the University had three operating lines of credit agreements totaling $500 million. These lines of credit are used throughout the year to bridge cyclical cash flow associated with tuition and gifts. During FY2018 usage of the lines of credit ranged from a high of $476.3 million to $238.3 million during certain periods when tuition payments are received or when gift receipts are highest. The line of credit balance was $393.5 million and $301.5 million as of June 30, 2018 and 2017, respectively.
Notes and Bonds Payable – University Only (continued)

Following is a summary of the changes in University notes and bonds payable over the past five years:

<table>
<thead>
<tr>
<th>($ in thousands)</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and bonds payable - beginning of year</td>
<td>$2,732,426</td>
<td>$2,830,162</td>
<td>$3,285,364</td>
<td>$3,628,943</td>
<td>$3,630,376</td>
</tr>
<tr>
<td>Current year changes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New borrowing</td>
<td></td>
<td>749,330</td>
<td>566,330</td>
<td>-</td>
<td>164,705</td>
</tr>
<tr>
<td>Debt refinancing</td>
<td></td>
<td>(399,353)</td>
<td>(233,518)</td>
<td>(72,265)</td>
<td>-</td>
</tr>
<tr>
<td>Principal repayment</td>
<td>(14,704)</td>
<td>(14,539)</td>
<td>(23,651)</td>
<td>(43,678)</td>
<td>(59,252)</td>
</tr>
<tr>
<td>Change in unamortized bond premium and other cost</td>
<td>(760)</td>
<td>57,464</td>
<td>31,418</td>
<td>(2,889)</td>
<td>9,807</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable commercial paper</td>
<td>50,000</td>
<td>(50,000)</td>
<td>-</td>
<td>72,265</td>
<td>(72,265)</td>
</tr>
<tr>
<td>Bank line of credit</td>
<td>63,200</td>
<td>112,300</td>
<td>3,000</td>
<td>48,000</td>
<td>92,000</td>
</tr>
<tr>
<td>Net change</td>
<td>97,736</td>
<td>343,579</td>
<td>343,579</td>
<td>1,433</td>
<td>134,995</td>
</tr>
<tr>
<td>Notes and bonds payable - end of year</td>
<td>$2,830,162</td>
<td>$3,173,741</td>
<td>$3,628,943</td>
<td>$3,630,376</td>
<td>$3,765,371</td>
</tr>
<tr>
<td>Fixed rate</td>
<td>76%</td>
<td>78%</td>
<td>80%</td>
<td>79%</td>
<td>79%</td>
</tr>
<tr>
<td>Variable rate</td>
<td>24%</td>
<td>22%</td>
<td>20%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: Principal payments required in each of the five years ending June 30, 2019 through 2023 are approximately, $27,629, $43,225, $89,698, $46,729, and $71,810, respectively.
The University’s endowment totaled $6.9 billion at June 30, 2018, 58 percent of total assets. The endowment is comprised of $4.9 billion donor-restricted “true” endowment funds and $2.0 billion board-designated “funds functioning as endowment.”

99 percent of the endowment is merged into one fund referred to as the Total Return Investment Pool (TRIP).

The endowment increased by $388.7 million in FY2018, primarily a result of investment returns of $526.5 exceeding endowment payout and the FFE draw in support of operations of $455.4 million by $71.1 million and endowment gifts and transfers to create funds functioning as endowment of $317.6 million.

TRIP rates of return (one year, three year, five year, ten year, and twenty year) for the past six years are shown below:

<table>
<thead>
<tr>
<th>Period of Years</th>
<th>FY 13</th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6.59%</td>
<td>12.70%</td>
<td>4.85%</td>
<td>-1.88%</td>
<td>11.41%</td>
<td>7.97%</td>
</tr>
<tr>
<td>3</td>
<td>10.60%</td>
<td>8.70%</td>
<td>8.00%</td>
<td>5.05%</td>
<td>4.65%</td>
<td>5.68%</td>
</tr>
<tr>
<td>5</td>
<td>4.76%</td>
<td>12.60%</td>
<td>9.84%</td>
<td>5.70%</td>
<td>6.60%</td>
<td>6.87%</td>
</tr>
<tr>
<td>10</td>
<td>10.02%</td>
<td>9.60%</td>
<td>8.37%</td>
<td>6.25%</td>
<td>5.38%</td>
<td>5.81%</td>
</tr>
<tr>
<td>20</td>
<td>10.71%</td>
<td>11.20%</td>
<td>10.64%</td>
<td>9.60%</td>
<td>9.08%</td>
<td>8.63%</td>
</tr>
</tbody>
</table>

The University utilizes the total return concept in calculating endowment payout. If endowment income received is not sufficient to support the total return objective, the balance is provided from accumulated capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment. Over the past five years investment returns of $2.0 billion has been sufficient to support an equal amount of endowment payout and FFE draw in support of operations over this same time-period.

The FY2018 endowment payout of $455.4 million includes regular payout of $368.7 million and $86.7 million of additional payout approved by the Board of Trustees to fund strategic initiatives, support development activities, and provide operating support.
Endowment – University Only (continued)

The following is a summary of endowment activity for the past five years. ($ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total investment return</strong></td>
<td>$766,864</td>
<td>$234,870</td>
<td>$(152,264)</td>
<td>$663,358</td>
<td>$526,510</td>
</tr>
<tr>
<td><strong>Endowment payout</strong></td>
<td>$(346,307)</td>
<td>$(364,699)</td>
<td>$(381,691)</td>
<td>$(395,790)</td>
<td>$(405,410)</td>
</tr>
<tr>
<td><strong>Draw from FFE in support of operations</strong></td>
<td>-</td>
<td>$(26,736)</td>
<td>$(33,680)</td>
<td>$(9,000)</td>
<td>$(50,000)</td>
</tr>
<tr>
<td><strong>Net investment return</strong></td>
<td>$420,557</td>
<td>$(156,565)</td>
<td>$(567,635)</td>
<td>$258,568</td>
<td>$71,100</td>
</tr>
</tbody>
</table>

**Other changes:**

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gifts</strong></td>
<td>99,128</td>
<td>94,642</td>
<td>114,495</td>
<td>140,920</td>
<td>124,679</td>
</tr>
<tr>
<td><strong>Transfers to create funds functioning as endowment</strong></td>
<td>37,913</td>
<td>55,296</td>
<td>24,445</td>
<td>56,409</td>
<td>174,962</td>
</tr>
<tr>
<td><strong>Other changes</strong></td>
<td>15,688</td>
<td>8,182</td>
<td>11,889</td>
<td>36,046</td>
<td>17,955</td>
</tr>
<tr>
<td><strong>Total other changes</strong></td>
<td>152,729</td>
<td>158,120</td>
<td>150,829</td>
<td>233,375</td>
<td>317,596</td>
</tr>
</tbody>
</table>

**Net increase (decrease) in endowment**

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net increase (decrease) in endowment</strong></td>
<td>$573,286</td>
<td>$1,555</td>
<td>$(416,806)</td>
<td>$491,943</td>
<td>$388,696</td>
</tr>
</tbody>
</table>

**Endowment at beginning of year**

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endowment at beginning of year</strong></td>
<td>$5,886,968</td>
<td>$6,460,254</td>
<td>$6,461,809</td>
<td>$6,045,003</td>
<td>$6,536,946</td>
</tr>
</tbody>
</table>

**End of year**

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>End of year</strong></td>
<td>$6,460,254</td>
<td>$6,461,809</td>
<td>$6,045,003</td>
<td>$6,536,946</td>
<td>$6,925,642</td>
</tr>
</tbody>
</table>

**Trip formula payout**

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trip formula payout</strong></td>
<td>$297,388</td>
<td>$319,849</td>
<td>$336,157</td>
<td>$353,116</td>
<td>$364,254</td>
</tr>
</tbody>
</table>

**Payout from separately invested endowment**

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payout from separately invested endowment</strong></td>
<td>7,573</td>
<td>3,123</td>
<td>2,966</td>
<td>4,177</td>
<td>4,409</td>
</tr>
</tbody>
</table>

**Special payouts:**

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alumni Relations and Development</strong></td>
<td>19,466</td>
<td>20,245</td>
<td>21,055</td>
<td>21,897</td>
<td>22,773</td>
</tr>
<tr>
<td><strong>Strategic investments</strong></td>
<td>21,880</td>
<td>21,482</td>
<td>21,513</td>
<td>16,600</td>
<td>13,974</td>
</tr>
<tr>
<td><strong>Financial Framework FFE draw</strong></td>
<td>-</td>
<td>26,736</td>
<td>33,680</td>
<td>9,000</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total special payouts</strong></td>
<td>$346,307</td>
<td>$391,435</td>
<td>$415,371</td>
<td>$404,790</td>
<td>$455,410</td>
</tr>
</tbody>
</table>
Introduction

• Preparation of the year-end financial statements requires management to make a number of estimates and assumptions associated with certain assets and liabilities.

• The following materials provide an analysis of the five most significant accounting estimates associated with the preparation of the University GAAP financial statements:
  – Medical Malpractice Self-Insurance Liability
  – Pension Cost
  – Retiree Health Cost
  – Patient Accounts Receivable - Allowance for Uncollectible Amounts
  – Pledges Receivable - Allowance for Uncollectible Pledges
Medical Malpractice Self-Insurance Liability

• The University maintains a self-insurance program for medical malpractice liability. This program is supplemented with commercial excess insurance above two self-insurance retention layers which for the year-ended June 30, 2018 were as follows:
  – Layer 1: $5 million for each and every claim made with no annual limit
  – Layer 2: An additional $12.5 million per claim in excess of the Layer 1 $5 million per claim threshold. This second layer of the self-insurance program is limited to $22.5 million in the aggregate for all claims made during the fiscal year

All claims in excess of the above self-insurance layers are covered by commercial insurance.

• 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 investment returns on available assets prior to payment. The self-insurance liability also provides for an estimate of incurred but not reported claims.

• Actuarial assumptions used to estimate the self-insurance liability are evaluated each year-end against actual results. The resulting actuarial gain/loss is initially recorded as a non-operating change in net assets and amortized into operations and funded over a rolling three-year period. As a result, any year-end over/under funding of the self-insurance program is expected to be amortized to zero at the end of the three-year amortization period.

• All actuarial calculations are performed by an outside actuary (Dion Strategic) and reviewed by KPMG.

• For accounting purposes, the University calculates and records the self-insurance liability at the mean level, discounted by a risk-free interest rate of return, which for the fiscal years ended June 30, 2018 and 2017 was 4.0 percent and 3.8 percent, respectively.

• To be conservative, the University and Medical Center make annual contributions to a related trust fund at an actuarially determined rate that assumes a 75 percent confidence level. This approach is intended to provide additional financial security.
Medical Malpractice Self-Insurance Liability (continued)

The following tables provide a summary of changes in the self-insurance liability, trust fund assets, and an analysis of actuarial gains and losses for the past five fiscal years:

($ in thousands)

<table>
<thead>
<tr>
<th>Changes in the self-insurance liability:</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarially determined malpractice liability - beginning of year</td>
<td>$254,328 $254,328 $254,328 $254,328 $254,328</td>
<td>$238,552 $238,552 $238,552 $238,552 $238,552</td>
<td>$250,444 $250,444 $250,444 $250,444 $250,444</td>
<td>$238,213 $238,213 $238,213 $238,213 $238,213</td>
<td>$236,770 $236,770 $236,770 $236,770 $236,770</td>
</tr>
<tr>
<td>Current year activity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash contributions to the self-insurance trust fund</td>
<td>34,090 34,090 34,090 34,090 34,090</td>
<td>37,284 37,284 37,284 37,284 37,284</td>
<td>25,164 25,164 25,164 25,164 25,164</td>
<td>18,909 18,909 18,909 18,909 18,909</td>
<td>17,644 17,644 17,644 17,644 17,644</td>
</tr>
<tr>
<td>Investment gains (losses)</td>
<td>42,918 42,918 42,918 42,918 42,918</td>
<td>13,391 13,391 13,391 13,391 13,391</td>
<td>(8,538) (8,538) (8,538) (8,538) (8,538)</td>
<td>31,750 31,750 31,750 31,750 31,750</td>
<td>22,604 22,604 22,604 22,604 22,604</td>
</tr>
<tr>
<td>Other changes - net</td>
<td>(9,354) (9,354) (9,354) (9,354) (9,354)</td>
<td>(11,406) (11,406) (11,406) (11,406) (11,406)</td>
<td>(9,969) (9,969) (9,969) (9,969) (9,969)</td>
<td>(10,675) (10,675) (10,675) (10,675) (10,675)</td>
<td>(10,324) (10,324) (10,324) (10,324) (10,324)</td>
</tr>
</tbody>
</table>

Actuarially determined malpractice liability - end of year

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$238,552</td>
<td>$250,444</td>
<td>$238,213</td>
<td>$236,770</td>
<td>$201,440</td>
</tr>
</tbody>
</table>

End of year self-insurance trust fund assets

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$338,474</td>
<td>$355,162</td>
<td>$307,260</td>
<td>$300,288</td>
<td>$286,068</td>
</tr>
</tbody>
</table>

Over funding of the liability - end of year

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$99,922</td>
<td>$104,718</td>
<td>$69,047</td>
<td>$63,518</td>
<td>$84,628</td>
</tr>
</tbody>
</table>

Actuarial gain (loss):

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$22,158</td>
<td>$4,559</td>
<td>$24,360</td>
<td>$21,713</td>
<td>$12,253</td>
</tr>
<tr>
<td>$12,516</td>
<td>$23,737</td>
<td>$7,489</td>
<td>$10,791</td>
<td>$17,827</td>
</tr>
<tr>
<td>$2,863</td>
<td></td>
<td>$8,095</td>
<td>$2,754</td>
<td>$2,414</td>
</tr>
<tr>
<td>$19,975</td>
<td>$22,475</td>
<td>$28,684</td>
<td>$31,515</td>
<td>$33,321</td>
</tr>
<tr>
<td>$9,440</td>
<td>$8,093</td>
<td>$14,645</td>
<td>$5,938</td>
<td>$12,005</td>
</tr>
</tbody>
</table>

Actuarial gain (loss) - as above

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,756</td>
<td>$4,796</td>
<td>$39,005</td>
<td>$2,195</td>
<td>$11,178</td>
</tr>
</tbody>
</table>
Pension Cost

- Substantially all nonacademic personnel of the University and Medical Center participate in the University's defined benefit pension plans.

- The 401(a) defined benefit pension plan has been frozen for the majority of University and all Medical Center employees and was replaced with an enhanced defined contribution plan. This curtailment resulted in a prior year reduction in the defined benefit pension obligation of $110.1 million.

- Key assumptions used in the accounting for the pension plans are determined in consultation with Willis Towers Watson, the University's outside actuary, and KPMG.
  - The University uses the Willis Towers Watson “RATE: Link 60-90” as the discount rate used to value the pension liability. This rate is based on rates of return on corporate bonds rated Aa or better by Moody’s with cash flows matching projected benefit payments.
  - The long-term rate of return assumption of 6.5 percent is based on a combined target investment allocation of 49 percent public equities and 51 percent fixed income securities.
  - Increases in total salary expense are based on historical average.
  - Mortality assumptions are indexed against the RP-2014 Group Annuity table.
  - The University and Medical Center fund the plans at an ERISA determined “Adjusted Financial Target Attainment Percentage” of not less than 80 percent. Funding at this level avoids restrictions on what can be paid to beneficiaries and avoids notifications to plan participants.

- FASB standards require an employer to recognize the funded status of a defined benefit pension plan on the balance sheet. Over the past year the unfunded status of the plan has decreased $19.8 million from $195.8 million at June 30, 2017 to $176.0 million at June 30, 2018. This decrease was primarily driven by an increase in the discount rate used to value the pension obligation from 3.7 percent to 4.2 percent off-set by a decrease in investment return of $45.8 million.
Pension Cost (continued)

Key actuarial assumptions and financial activity of the plan are shown on the following tables:

($) in thousands

<table>
<thead>
<tr>
<th>Key actuarial assumptions:</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.30%</td>
<td>4.50%</td>
<td>3.60%</td>
<td>3.70%</td>
<td>4.20%</td>
</tr>
<tr>
<td>Comparable Moody’s Aa bond index</td>
<td>4.20%</td>
<td>4.29%</td>
<td>3.50%</td>
<td>3.81%</td>
<td>4.11%</td>
</tr>
<tr>
<td>Effect of a 1/2% rate change on pension liability</td>
<td>$45,000</td>
<td>$1,050 $1,050</td>
<td>$1,050 $1,050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term rate of return on plan assets</td>
<td>6.50%</td>
<td>6.50%</td>
<td>6.50%</td>
<td>6.50%</td>
<td>6.50%</td>
</tr>
<tr>
<td>Actual rate of return (calendar year)</td>
<td>8.98%</td>
<td>3.98%</td>
<td>10.82%</td>
<td>4.10%</td>
<td></td>
</tr>
<tr>
<td>Effect of a 1/2% rate change on pension cost</td>
<td>$1,050</td>
<td>$1,050 $1,050</td>
<td>$1,050 $1,050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary increases</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
</tbody>
</table>

Funded status of the plan as of June 30:

<table>
<thead>
<tr>
<th></th>
<th>FY2014 $</th>
<th>FY2015 $</th>
<th>FY2016 $</th>
<th>FY2017 $</th>
<th>FY2018 $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets</td>
<td>671,793</td>
<td>695,869</td>
<td>741,696</td>
<td>772,032</td>
<td>745,768</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>784,550</td>
<td>821,030</td>
<td>935,609</td>
<td>963,930</td>
<td>918,305</td>
</tr>
<tr>
<td>ABO (unfunded) status</td>
<td>(112,757)</td>
<td>(125,161)</td>
<td>(193,913)</td>
<td>(191,898)</td>
<td>(172,537)</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>916,791</td>
<td>954,886</td>
<td>1,017,137</td>
<td>967,817</td>
<td>921,794</td>
</tr>
<tr>
<td>PBO (unfunded) status</td>
<td>(244,998)</td>
<td>(259,017)</td>
<td>(275,441)</td>
<td>(195,785)</td>
<td>(176,026)</td>
</tr>
<tr>
<td>ABO funded status</td>
<td>85.6%</td>
<td>84.8%</td>
<td>79.3%</td>
<td>80.1%</td>
<td>81.2%</td>
</tr>
<tr>
<td>PBO funded status</td>
<td>73.3%</td>
<td>72.9%</td>
<td>72.9%</td>
<td>79.8%</td>
<td>80.9%</td>
</tr>
<tr>
<td>Employer contributions to the plan</td>
<td>65,000</td>
<td>65,000</td>
<td>65,000</td>
<td>-</td>
<td>2,496</td>
</tr>
</tbody>
</table>
### Pension Cost (continued)

($ in thousands)

<table>
<thead>
<tr>
<th>Components of net periodic pension cost:</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$35,779</td>
<td>$41,070</td>
<td>$41,662</td>
<td>$14,061</td>
<td>$1,473</td>
</tr>
<tr>
<td>Interest cost</td>
<td>38,291</td>
<td>38,137</td>
<td>40,869</td>
<td>34,597</td>
<td>34,323</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(37,013)</td>
<td>(41,177)</td>
<td>(45,724)</td>
<td>(47,094)</td>
<td>(46,392)</td>
</tr>
<tr>
<td>Amortization of prior service cost (benefit)</td>
<td>1,134</td>
<td>1,134</td>
<td>611</td>
<td>(986)</td>
<td>(258)</td>
</tr>
<tr>
<td>Amortization of loss</td>
<td>24,811</td>
<td>28,335</td>
<td>26,367</td>
<td>24,715</td>
<td>20,773</td>
</tr>
<tr>
<td>Settlements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11,804</td>
</tr>
<tr>
<td>Periodic pension expense</td>
<td>63,002</td>
<td>67,499</td>
<td>63,785</td>
<td>25,293</td>
<td>21,723</td>
</tr>
<tr>
<td>Frozen pension plan curtailment credit</td>
<td>-</td>
<td>-</td>
<td>(7,119)</td>
<td>(5,002)</td>
<td>-</td>
</tr>
<tr>
<td>Net pension expense</td>
<td>$63,002</td>
<td>$67,499</td>
<td>$56,666</td>
<td>$20,291</td>
<td>$21,723</td>
</tr>
</tbody>
</table>

### Pension benefit obligation:

<table>
<thead>
<tr>
<th>Balance at beginning of year</th>
<th>$237,167</th>
<th>$244,998</th>
<th>$259,017</th>
<th>$275,441</th>
<th>$195,785</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year net periodic pension cost</td>
<td>(63,002)</td>
<td>(67,499)</td>
<td>(56,666)</td>
<td>(20,291)</td>
<td>(21,723)</td>
</tr>
<tr>
<td>Curtailment (effect of partial plan freeze)</td>
<td>-</td>
<td>-</td>
<td>45,926</td>
<td>64,241</td>
<td>-</td>
</tr>
<tr>
<td>Current year cash contribution</td>
<td>65,000</td>
<td>65,000</td>
<td>65,000</td>
<td>-</td>
<td>2,496</td>
</tr>
<tr>
<td>FASB pension liability adjustment</td>
<td>(9,829)</td>
<td>(11,520)</td>
<td>(70,684)</td>
<td>35,706</td>
<td>38,986</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$244,998</td>
<td>$259,017</td>
<td>$275,441</td>
<td>$195,785</td>
<td>$176,026</td>
</tr>
</tbody>
</table>

Over the last five years the University and Medical Center contributed $197 million to the defined benefit pension plan. The University and Medical Center’s plan is to fund the pension plan based on the ERISA determined “Adjusted Financial Target Attainment Percentage” which resulted in no funding in FY2017 and minimal finding in FY2018. At this time it is anticipated that $13.3 million in contribution will be made to the defined benefit pension plan in FY2019.
Retiree Health Cost

• In addition to providing pension benefits, the University provides certain health care benefits for retired employees. All Medicare-eligible tenured faculty who elect to participate in the University Faculty Retirement Incentive Program receive supplemental health insurance at no cost for themselves and their spouses. All other eligible academic and nonacademic employees are entitled to supplemental health insurance coverage subject to premium cost sharing schedules. All eligible participants are subject to the plan’s deductibles, co-payment provisions, and other limitations.

• Key assumptions used in the accounting for retiree health expense are determined in consultation with Willis Towers Watson, the University’s outside actuary, and KPMG:
  – The University uses the Willis Towers Watson “RATE: Link 60-90” as the discount rate used to value the retiree health liability. This rate is based on rates of return of corporate bonds rated Aa or better by Moody’s with cash flows matching projected benefit payments.
  – The long-term rate of return assumption is based on investment of retiree health plan assets similar to the University’s endowment.
  – Health care trend rates are set based on industry standards.
  – Annual increases in employee contributions are governed by increases in actual costs.

• In FY2019, the University expects to contribute $13.9 million to its postretirement healthcare plan in addition to projected benefit payments of $7.2 million. It is expected the annual contribution will average approximately 8.0 million over the next several years.

• Similar to defined benefit pension plans, the FASB standards require an employer to recognize the funded status of other postretirement benefits, such as retiree health, on the balance sheet.
Retiree Health Cost (continued)

Key actuarial assumptions and financial activity of the plan are shown on the following tables:

($ in thousands)

<table>
<thead>
<tr>
<th>Key actuarial assumptions:</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.50%</td>
<td>4.70%</td>
<td>3.80%</td>
<td>4.00%</td>
<td>4.30%</td>
</tr>
<tr>
<td>Comparable Moody's Aa bond index</td>
<td>4.20%</td>
<td>4.29%</td>
<td>3.50%</td>
<td>3.81%</td>
<td>4.11%</td>
</tr>
<tr>
<td>Effect of a 1% rate change on the liability</td>
<td></td>
<td></td>
<td></td>
<td>$41,600</td>
<td></td>
</tr>
<tr>
<td>Effect of a 1% rate change on expense</td>
<td></td>
<td></td>
<td></td>
<td>$4,200</td>
<td></td>
</tr>
<tr>
<td>Long-term rate of return on assets</td>
<td>6.50%</td>
<td>6.50%</td>
<td>6.50%</td>
<td>6.50%</td>
<td>6.50%</td>
</tr>
</tbody>
</table>

Health care trend rates:

| First year | 7.00%   | 7.00%   | 6.70%   | 7.80%   | 7.50%   |
| Second year| 6.70%   | 6.70%   | 6.50%   | 7.50%   | 7.20%   |
| Third year | 6.50%   | 6.50%   | 6.30%   | 7.20%   | 6.90%   |
| Fourth year| 6.30%   | 6.30%   | 6.20%   | 6.90%   | 6.60%   |
| Fifth year | 6.20%   | 6.20%   | 6.00%   | 6.60%   | 6.30%   |
| Thereafter | 6.00-4.50% | 6.00-4.50% | 5.70-4.50% | 6.30-4.50% | 5.90-4.50% |

Funded status of the plan as of June 30:

| Fair value of plan assets                        | $ 21,089 | $ 30,536 | $ 37,019 | $ 45,995 | $ 62,136 |
| Accumulated benefit obligation (ABO)             | 183,779  | 199,086  | 274,654  | 298,990  | 276,470  |
| ABO (unfunded) status                            | $ (162,690) | $(168,550) | $(237,635) | $(252,995) | $(214,334) |
Retiree Health Cost (continued)

($ in thousands)

<table>
<thead>
<tr>
<th>Retiree health benefit obligation</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$ (210,992)</td>
<td>$ (162,690)</td>
<td>$ (168,550)</td>
<td>$ (237,635)</td>
<td>$ (252,995)</td>
</tr>
<tr>
<td>Current year net periodic benefit cost</td>
<td>(15,980)</td>
<td>(11,750)</td>
<td>(13,448)</td>
<td>(18,174)</td>
<td>(20,235)</td>
</tr>
<tr>
<td>Current year cash contribution</td>
<td>20,895</td>
<td>15,051</td>
<td>12,595</td>
<td>11,018</td>
<td>18,993</td>
</tr>
<tr>
<td>FASB liability adjustment</td>
<td>43,387</td>
<td>(9,161)</td>
<td>(68,232)</td>
<td>(8,204)</td>
<td>39,903</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$ (162,690)</td>
<td>$ (168,550)</td>
<td>$ (237,635)</td>
<td>$ (252,995)</td>
<td>$ (214,334)</td>
</tr>
</tbody>
</table>

Components of net periodic retiree health cost:

| Service cost                      | $ 7,738          | $ 7,861          | $ 7,568          | $ 9,547          | $ 11,117          |
| Interest cost                     | 9,500            | 8,150            | 9,084            | 10,105           | 11,344            |
| Expected return on plan assets    | (1,228)          | (1,859)          | (2,295)          | (2,745)          | (3,843)           |
| Amortization of transition liability, prior service cost and actuarial gains and loses | (30)            | (2,402)          | (909)            | 1,267            | 1,617             |
| Net retiree health expense        | $ 15,980         | $ 11,750         | $ 13,448         | $ 18,174         | $ 20,235         |
Patient Accounts Receivable – Allowance for Uncollectible Amounts

- 12 percent of the University’s operating revenue is derived from professional fee patient care activity of the Biological Sciences Division (BSD).

- Approximately 95 percent of all patient care revenue is provided under discounted contractual agreements.

- The BSD Physicians Group bills primary and secondary insurance carriers on behalf of patients covered by Medicare, Medicaid, Blue Cross/Blue Shield, HMO’s, and PPO’s. An estimated provision for contractual write-offs and uncollectible amounts is added to the allowance for doubtful accounts at the time of the insurance billing based on an on-going analysis of historical data by payor group.

- As a further check of the accumulated allowance for doubtful accounts, a method of valuing the patient billing accounts receivable was developed based on actual historical collection experience by payor group and aging category.
  - This “point in time” analysis provides an estimate of the allowance that is then compared to the allowance determined by the incremental method described above.
  - The “point in time” analysis is done each year in June to ensure that the allowances are reasonably stated at year-end.

- KPMG annually evaluates the calculation and methodology of the allowance for uncollectible amounts and the accrual for unbilled patient services.
Patient Accounts Receivable – Allowance for Uncollectible Amounts (continued)

The following table provides an analysis of the patient accounts receivable activity for the past five years:

(\$ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Changes in patient accounts receivable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient accounts receivable beginning of year - net</td>
<td>$21,326</td>
<td>$20,180</td>
<td>$22,342</td>
<td>$21,971</td>
<td>$30,723</td>
</tr>
<tr>
<td>Patient billings - net of contractual allowances and charity care</td>
<td>144,575</td>
<td>150,635</td>
<td>153,314</td>
<td>158,972</td>
<td>162,092</td>
</tr>
<tr>
<td>Provision for uncollectible amounts</td>
<td>(8,402)</td>
<td>(6,450)</td>
<td>(6,997)</td>
<td>(7,302)</td>
<td>(8,272)</td>
</tr>
<tr>
<td>Provision %</td>
<td>6%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Cash payments received</td>
<td>(137,309)</td>
<td>(141,975)</td>
<td>(146,693)</td>
<td>(144,485)</td>
<td>(156,835)</td>
</tr>
<tr>
<td><strong>Year end adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unbilled patient services and other adjustments - net</td>
<td>18</td>
<td>(30)</td>
<td>(245)</td>
<td>12</td>
<td>(996)</td>
</tr>
<tr>
<td>Allowance for contractual write-offs and uncollectible amounts</td>
<td>(28)</td>
<td>(18)</td>
<td>250</td>
<td>1,555</td>
<td>(684)</td>
</tr>
<tr>
<td><strong>Patient accounts receivable end of year - net</strong></td>
<td>$20,180</td>
<td>$22,342</td>
<td>$21,971</td>
<td>$30,723</td>
<td>$26,028</td>
</tr>
</tbody>
</table>

**End of year patient accounts receivable:**

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient accounts receivable</td>
<td>$21,510</td>
<td>$23,445</td>
<td>$23,063</td>
<td>$32,117</td>
<td>$27,520</td>
</tr>
<tr>
<td>Allowance for uncollectible amounts</td>
<td>(1,330)</td>
<td>(1,103)</td>
<td>(1,092)</td>
<td>(1,394)</td>
<td>(1,492)</td>
</tr>
<tr>
<td>Allowance %</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Patient accounts receivable end of year - net</strong></td>
<td>$20,180</td>
<td>$22,342</td>
<td>$21,971</td>
<td>$30,723</td>
<td>$26,028</td>
</tr>
</tbody>
</table>
Pledges Receivable – Allowance for Uncollected Pledges

• GAAP requires the recording of fundraising pledges net of a time value of money discount and an allowance for uncollectible amounts.

• The discounted pledges receivable balance of $595.3 million as of June 30, 2018 includes the following:
  – 260 pledges between $100,000 and $1 million
  – 60 pledges between $1 million and $5 million
  – 20 pledges between $5 million and $20 million
  – 4 pledges $20 million or greater

• The University’s five largest pledges comprise approximately 45 percent of pledges receivable at June 30, 2018.

• Each year-end, Financial Services, and in certain cases KPMG, meets with the Development Office to review delinquent pledges and assess future payments. Pledges deemed uncollectible are written-off.

• The University has a history of contributors honoring their pledges. Write-offs over the past several years have been primarily due to the following:
  – The person making the pledge has died and the University has chosen not to petition the decedent’s estate.
  – There has been a dramatic economic change making it difficult for the donor to honor the pledge.
  – A general “clean-up” of older delinquent pledges.

• The allowance for uncollectible pledges $100 million and under has been conservatively set at 10 percent. An allowance for pledges in excess of $100 million is determined on a pledge by pledge basis. Overall, the blended allowance rate for all pledges is 7 percent at June 30, 2018.
The following table provides an analysis of the changes in pledges receivable for the past five years:

($ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Changes in pledges receivable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges receivable beginning of year - net</td>
<td>$417,617</td>
<td>$503,267</td>
<td>$519,136</td>
<td>$603,814</td>
<td>$648,341</td>
</tr>
<tr>
<td>New pledges - net of discount</td>
<td>186,222</td>
<td>134,192</td>
<td>234,073</td>
<td>240,207</td>
<td>148,617</td>
</tr>
<tr>
<td>Pledge payments</td>
<td>(90,865)</td>
<td>(127,399)</td>
<td>(155,108)</td>
<td>(205,042)</td>
<td>(234,440)</td>
</tr>
<tr>
<td>Pledge corrections and write-offs</td>
<td>(14,059)</td>
<td>(6,258)</td>
<td>(6,576)</td>
<td>(7,594)</td>
<td>(4,009)</td>
</tr>
<tr>
<td>Current year amortization of discount</td>
<td>13,869</td>
<td>17,097</td>
<td>21,698</td>
<td>21,903</td>
<td>30,869</td>
</tr>
<tr>
<td>(Increase) decrease in the allowance for uncollectible pledges</td>
<td>(9,517)</td>
<td>(1,763)</td>
<td>(9,409)</td>
<td>(4,947)</td>
<td>5,896</td>
</tr>
<tr>
<td>Pledges receivable end of year - net</td>
<td>$503,267</td>
<td>$519,136</td>
<td>$603,814</td>
<td>$648,341</td>
<td>$595,274</td>
</tr>
</tbody>
</table>

|                          |         |         |         |         |         |
| **End of year pledges receivable:** |         |         |         |         |         |
| Pledges receivable - net of discount | $539,741 | $557,374 | $651,460 | $700,934 | $641,971 |
| Allowance for uncollectible pledges | (36,474) | (38,238) | (47,646) | (52,593) | (46,697) |
| Pledges receivable end of year | $503,267 | $519,136 | $603,814 | $648,341 | $595,274 |