Budget Office

Agenda

- Updates/Annoucements – 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

	A	B	C	D
	Prior Space Cost Allocation Base*	**New Space Cost Allocation Base***	**Space Cost Allocation Base Adjustment (B-A)**	**FY20 Estimate****
Depreciation - Building	962,270	2,562,235	1,599,965	2,590,251
Interest Expense	1,557,174	1,056,488	(500,686)	1,066,539
Facilities Operations & Maintenance	45,994	655,441	609,447	687,388
Utilities	24,393	159,926	135,533	171,733
Internal Rent charged by Facilities Services	3,401,274		(3,401,274)	
Total	**5,991,105**	**4,434,090**	**(1,557,015)**	**4,515,911**

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

Space Cost Allocation

	A	B	C	D
	Prior Space Cost Allocation Base*	**New Space Cost Allocation Base***	**Space Cost Allocation Base Adjustment (B-A)**	**FY20 Estimate****
Depreciation - Building	962,270	2,562,235	1,599,965	2,590,251
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Internal Rent charged by Facilities Services	3,401,274		(3,401,274)	
Total	**5,991,105**	**4,434,090**	**(1,557,015)**	**4,515,911**

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

Space Cost Allocation

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

* 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

	A	B	C	D
	Prior Space Cost Allocation Base*	**New Space Cost Allocation Base***	**Space Cost Allocation Base Adjustment (B-A)**	**FY20 Estimate****
Depreciation - Building	962,270	2,562,235	1,599,965	2,590,251
Interest Expense	1,557,174	1,056,488	(500,686)	1,066,539
Facilities Operations & Maintenance	45,994	655,441	609,447	687,388
Utilities	24,393	159,926	135,533	171,733
Internal Rent charged by Facilities Services	3,401,274		(3,401,274)	
Total	**5,991,105**	**4,434,090**	**(1,557,015)**	**4,515,911**

- 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.

Budget Office

FY19 BUDGET PREPARATION

FY20 Budget Training

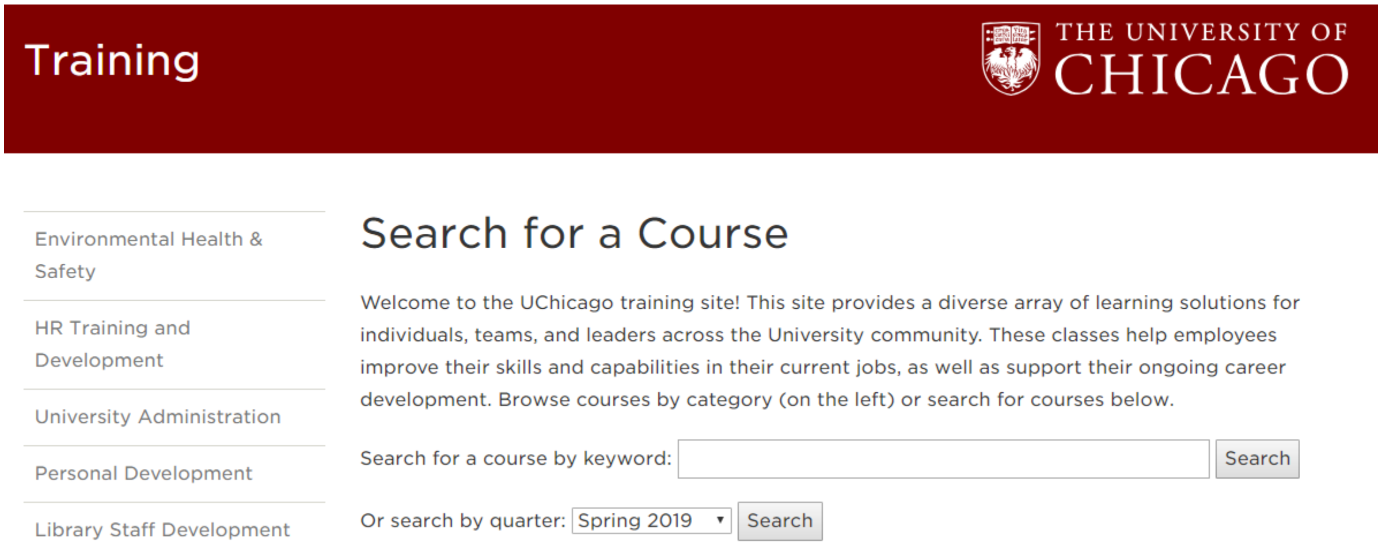
Delphi	Time	Location
Session 1	March 5, 10:00 – 11:30 am	Crerar, Room 008
Session 2	March 6, 1:00 – 2:30 pm	Drexel, Room 146
Session 3	March 12, 10:00 – 11:30 am	Crerar, Room 008
Session 4	March 13, 10:00 – 11:30 am	Drexel, Room 146
Session 5	April 3, 10:00 – 11:30 am	Crerar, Room 008

Smartview	Time	Location
Session 1	March 6, 10:00 – 11:30 am	Crerar, Room 008
Session 2	March 14, 3:00 – 4:30 pm	Drexel, Room 146
Session 3	March 27, 10:00 – 11:30 am	Crerar, Room 008
Session 4	March 28, 1:00 – 2:30 am	Drexel, Room 146

Open Session	Time	Location
Session 1	April 8, 1:00 – 2:30 pm	Drexel, Room 146
Session 2	April 9, 10:00 – 11:30 am	Crerar, Room 008
Session 3	April 10, 1:00 – 2:30 pm	Drexel, Room 146

Sign Up

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



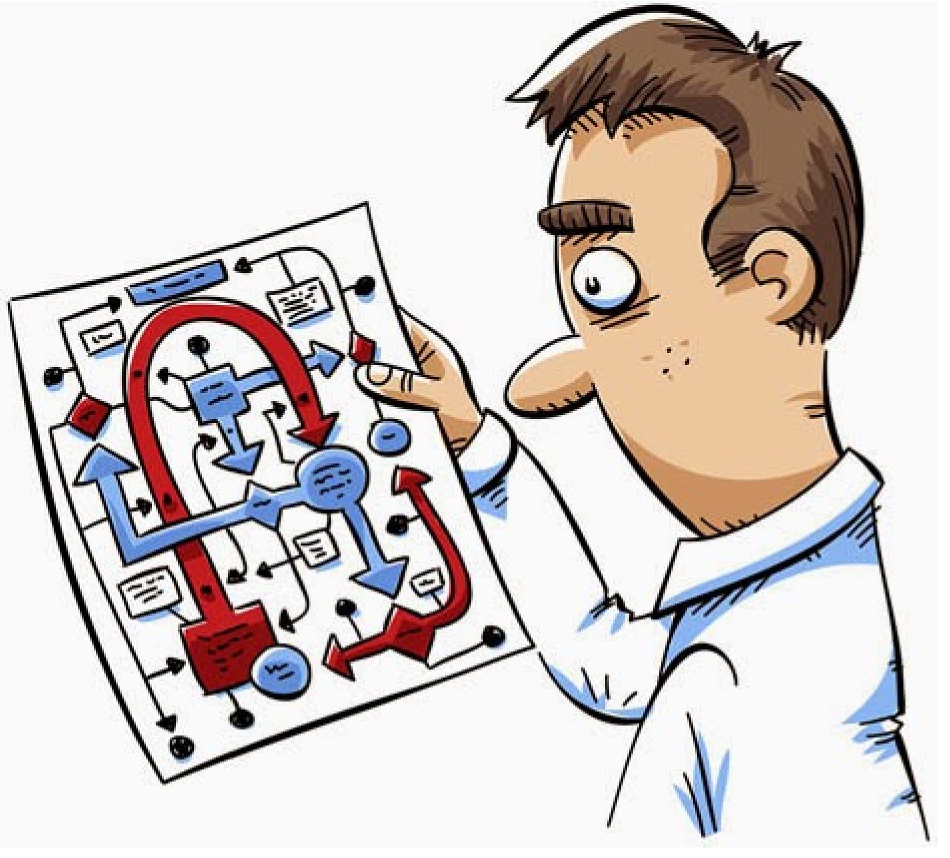
Delphi Training
http://training.uchicago.edu/course_detail.php?course_id=1873

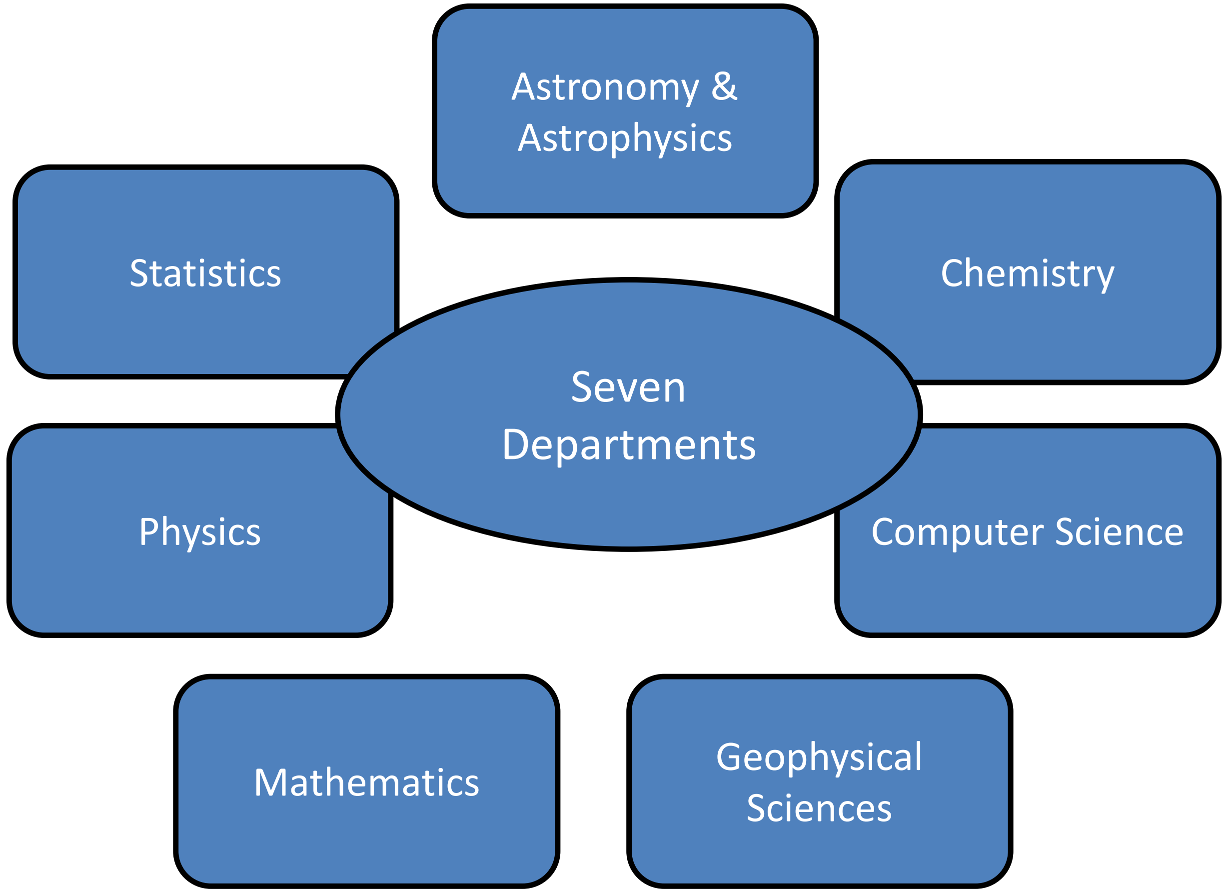
Smartview Training
http://training.uchicago.edu/course_detail.php?course_id=1874

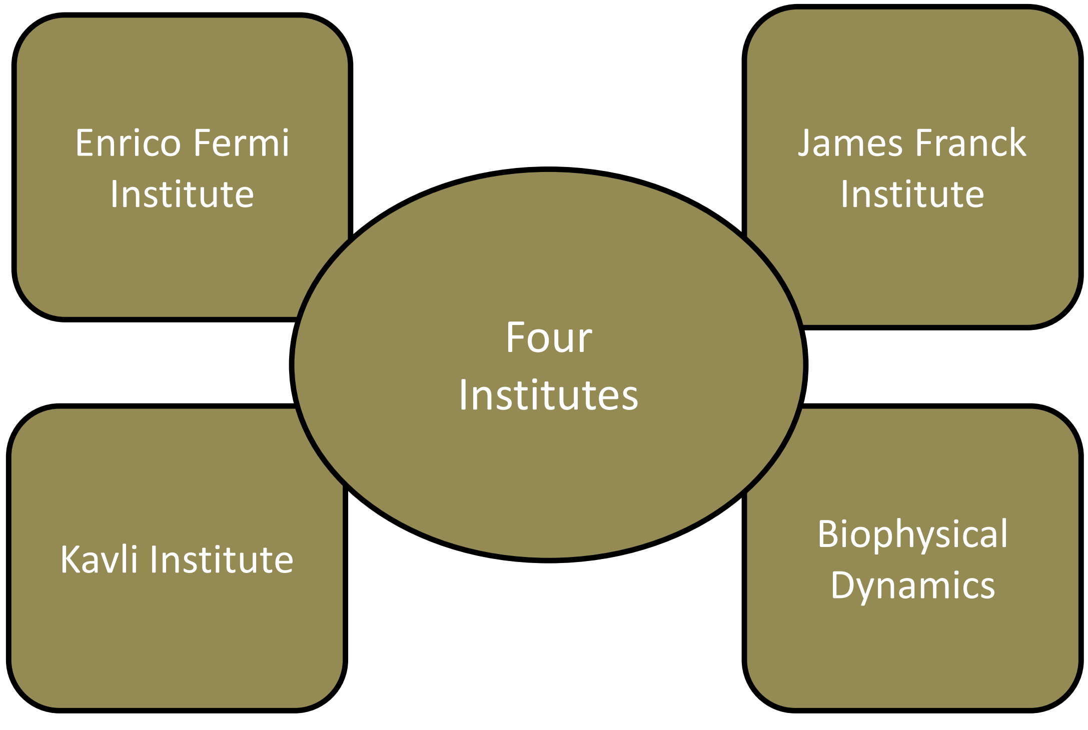
Open Session
http://training.uchicago.edu/course_detail.php?course_id=1875

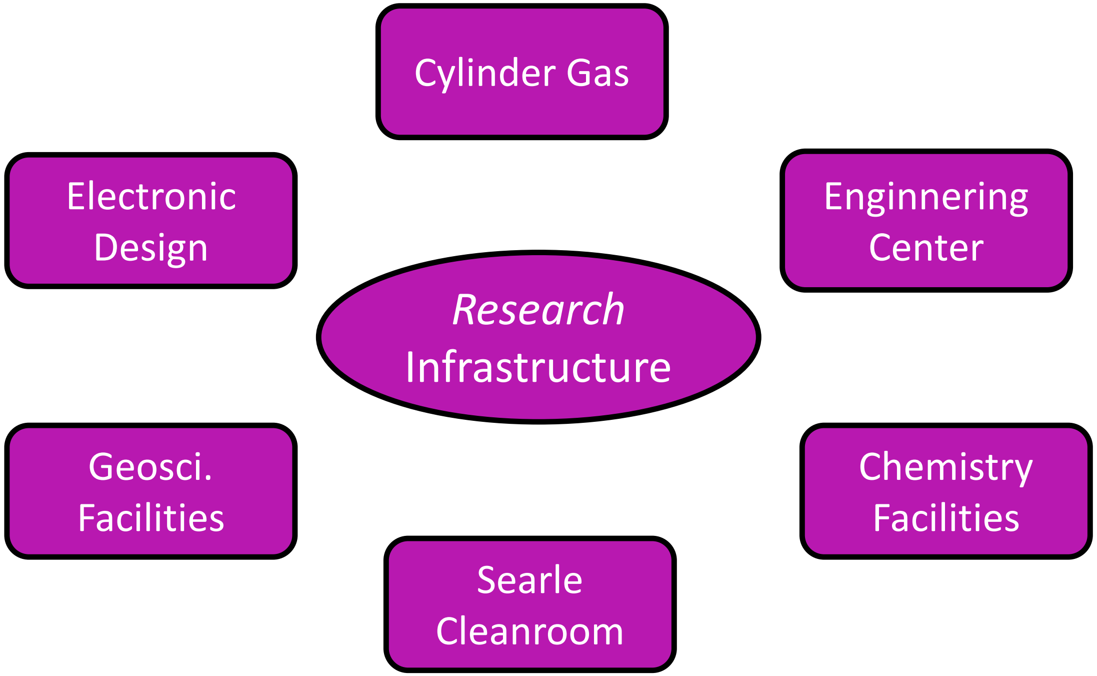
BRETT PADGETT
ASSOCIATE VP FOR FINANCE

PSD Budgeting Process




Astronomy &
Astrophysics
Statistics
Chemistry
Seven
Departments
Physics
Computer Science
Mathematics
Geophysical
Sciences


Enrico Fermi Institute
James Franck Institute
Four Institutes
Kavli Institute
Biophysical Dynamics


Cylinder Gas
Electronic Design
Enginnering Center
Research Infrastructure
Geosci. Facilities
Chemistry Facilities
Searle Cleanroom

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

+

Space Charge

Utility Expense

External Interest

Depreciation

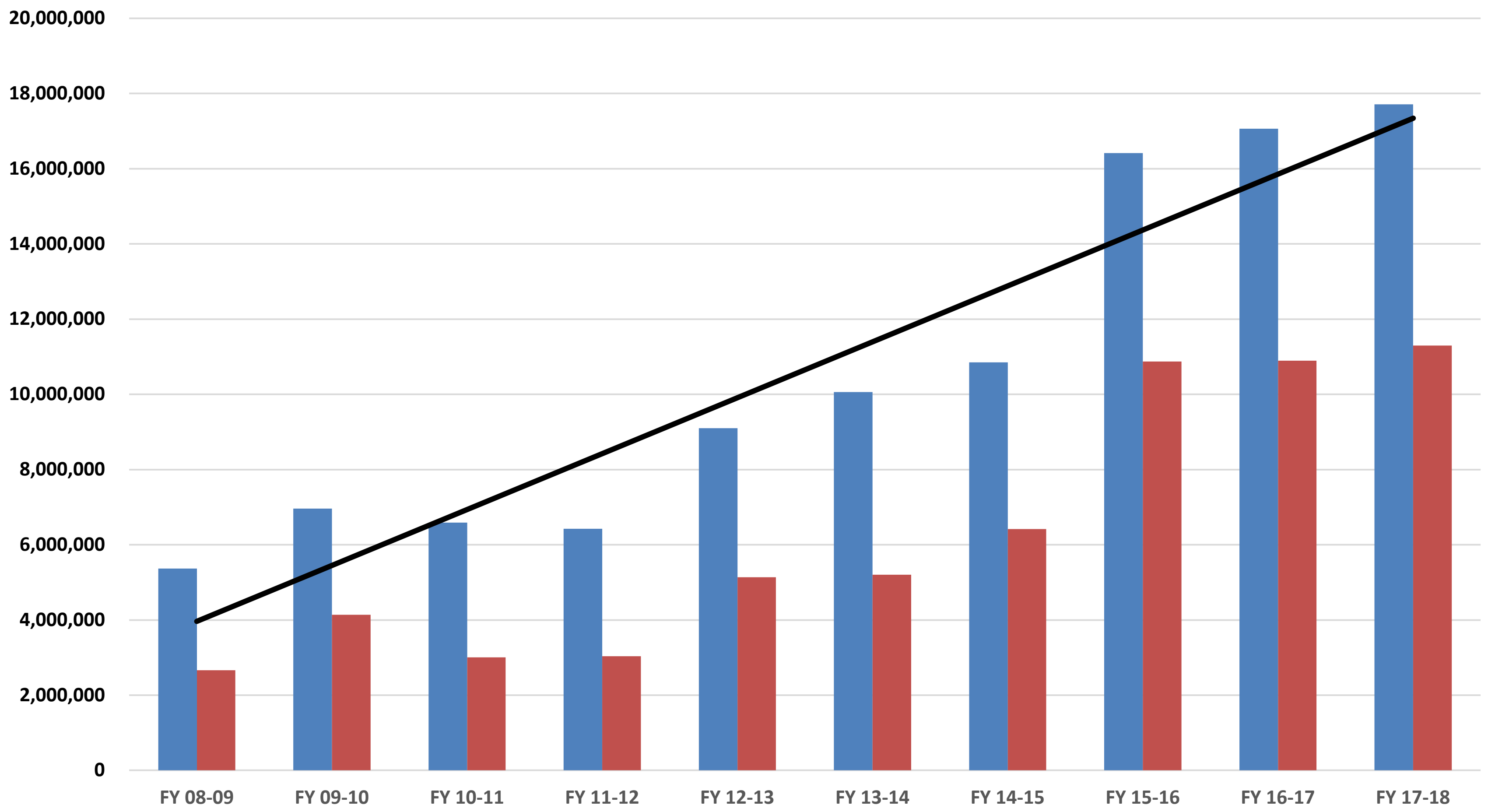
=

Net Position

The Good News

High Demand for STEM Education

PSD Masters Program History
Tuition and Net Profit



Any Dark Clouds?

Faculty

- Faculty Salaries
  - 3% increase cost the division $1M

- Cost of Experimental Science
  - Start-Up packages begin at $2.5M

Questions?

THE UNIVERSITY OF CHICAGO

UNIVERSITY FINANCIAL RESULTS FOR THE YEAR ENDED JUNE 30, 2018

BUDGET MANAGERS MEETING

FEBRUARY 19, 2019

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)

	2018				
	University	Medical Center	MBL	Consolidated	Consolidated 2017
ASSETS					
Cash	$ 66,770	$ 211,751	$ 1,676	$ 280,197	$ 50,384
Patient accounts receivable	26,028	347,870	-	373,898	462,823
Pledges receivable	595,274	2,487	2,805	600,566	655,584
Endowment	6,925,642	919,474	83,370	7,928,486	7,523,720
Other investments	818,136	289,811	9,878	1,117,825	1,181,012
Land, buildings, equipment, and books	3,210,925	1,602,751	105,567	4,919,243	4,912,286
Other assets	317,911	141,939	7,794	467,644	451,079
Total assets	$ 11,960,686	$ 3,516,083	$ 211,090	$ 15,687,859	$ 15,236,888
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)

	2018				Consolidated
	University	Medical Center	MBL	Consolidated	2017
GAAP excess (deficiency) of operating revenue over expenses before FFE draw	$ (74,578)	$ 40,254	$ (11,842)	$ (46,166)	$ 18,632
FFE draw	50,000	-	-	50,000	9,000
GAAP excess (deficiency) of operating revenue over expenses	(24,578)	40,254	(11,842)	3,834	27,623
Pledges and other non-operating gifts	238,578	5,048	2,764	246,390	334,589
Investment gains, net of endowment payout	121,101	20,557	1,857	143,515	326,581
Draw from FFE in support of operations	(50,000)	-	-	(50,000)	(9,000)
Pension plan curtailment (reduction of unfunded liability)	-	-	-	-	64,241
Pension and other postretirement benefit plan changes, net of benefit expense	80,758	2,661	(98)	83,321	34,669
Change in value of derivative instruments	11,281	24,635	1,291	37,207	67,401
Loss on debt refinancing	-	-	-	-	(27,028)
University operating support provided to MBL	(10,828)	-	10,828	-	-
Contribution of Ingalls net assets	-	-	-	-	322,862
Other changes	(89,430)	(43,833)	(2,484)	(135,747)	(161,486)
Increase in net assets	276,882	49,322	2,316	328,520	980,452
Net assets beginning of year	6,478,121	1,770,945	170,169	8,419,235	7,438,783
Net assets end of year	$ 6,755,003	$ 1,820,267	$ 172,485	$ 8,747,755	$ 8,419,235

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)

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

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)

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

($ in thousands)

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

Changes in Net Assets – University Only (continued)

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

($ in thousands)

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

- **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:

($ in thousands)

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

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 re-classifies 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)

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

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:

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

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.

Endowment – University Only

- 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:

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

- 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)

	FY 14	FY 15	FY 16	FY 17	FY 18
Total investment return	$ 766,864	$ 234,870	$ (152,264)	$ 663,358	$ 526,510
Endowment payout	(346,307)	(364,699)	(381,691)	(395,790)	(405,410)
Draw from FFE in support of operations	-	(26,736)	(33,680)	(9,000)	(50,000)
Net investment return	420,557	(156,565)	(567,635)	258,568	71,100
Other changes:					
Gifts	99,128	94,642	114,495	140,920	124,679
Transfers to create funds functioning as endowment	37,913	55,296	24,445	56,409	174,962
Other changes	15,688	8,182	11,889	36,046	17,955
Total other changes	152,729	158,120	150,829	233,375	317,596
Net increase (decrease) in endowment	573,286	1,555	(416,806)	491,943	388,696
Endowment at beginning of year	5,886,968	6,460,254	6,461,809	6,045,003	6,536,946
End of year	$ 6,460,254	$ 6,461,809	$ 6,045,003	$ 6,536,946	$ 6,925,642
Trip formula payout	$ 297,388	$ 319,849	$ 336,157	$ 353,116	$ 364,254
Payout from separately invested endowment	7,573	3,123	2,966	4,177	4,409
Special payouts:					
Alumni Relations and Development	19,466	20,245	21,055	21,897	22,773
Strategic investments	21,880	21,482	21,513	16,600	13,974
Financial Framework FFE draw	-	26,736	33,680	9,000	50,000
	$ 346,307	$ 391,435	$ 415,371	$ 404,790	$ 455,410

THE UNIVERSITY OF CHICAGO

UNIVERSITY ACCOUNTING ESTIMATES

BUDGET MANAGERS MEETING

FEBRUARY 19, 2019

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

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)

	FY2014	FY2015	FY2016	FY2017	FY2018
Changes in the self-insurance liability:					
Actuarially determined malpractice liability - beginning of year	$ 254,328	$ 238,552	$ 250,444	$ 238,213	$ 236,770
Current year activity:					
Claims paid in cash	(87,186)	(22,581)	(57,893)	(43,622)	(54,076)
Cash contributions to the self-insurance trust fund	34,090	37,284	25,164	18,909	17,644
Investment gains (losses)	42,918	13,391	(8,538)	31,750	22,604
Other changes - net	(9,354)	(11,406)	(9,969)	(10,675)	(10,324)
Non-cash year end actuarial adjustment - (gain) loss	3,756	(4,796)	39,005	2,195	(11,178)
Actuarially determined malpractice liability - end of year	$ 238,552	$ 250,444	$ 238,213	$ 236,770	$ 201,440
End of year self-insurance trust fund assets	$ 338,474	$ 355,162	$ 307,260	$ 300,288	$ 286,068
Over funding of the liability - end of year	$ 99,922	$ 104,718	$ 69,047	$ 63,518	$ 84,628
Actuarial gain (loss):					
Favorable (unfavorable) investment returns	$ 22,158	$ (4,559)	$ (24,360)	$ 21,713	$ 12,253
Favorable (unfavorable) development of case reserves	(12,516)	23,737	7,489	10,791	17,827
Change in interest discount rate	(2,863)	-	(8,095)	2,754	2,414
Amortization of prior period (surplus)	(19,975)	(22,475)	(28,684)	(31,515)	(33,321)
All other changes and adjustments - net	9,440	8,093	14,645	(5,938)	12,005
Actuarial gain (loss) - as above	**$ (3,756)**	**$ 4,796**	**$ (39,005)**	**$ (2,195)**	**$ 11,178**

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)

	FY2014	FY2015	FY2016	FY2017	FY2018
Key actuarial assumptions:					
Discount rate	4.30%	4.50%	3.60%	3.70%	4.20%
Comparable Moody's Aa bond index	4.20%	4.29%	3.50%	3.81%	4.11%
Effect of a 1/2% rate change on pension liability					$45,000
Long-term rate of return on plan assets	6.50%	6.50%	6.50%	6.50%	6.50%
Actual rate of return (calendar year)	8.98%	3.98%	10.82%	4.10%	
Effect of a 1/2% rate change on pension cost				$1,050	$1,050
Salary increases	3.50%	3.50%	3.50%	3.50%	3.50%
Mortality	RP 2000	RP 2000	RP2014	RP2014	RP2014
Funded status of the plan as of June 30:					
Fair value of plan assets	$ 671,793	$ 695,869	$ 741,696	$ 772,032	$ 745,768
Accumulated benefit obligation	784,550	821,030	935,609	963,930	918,305
ABO (unfunded) status	$ (112,757)	$ (125,161)	$ (193,913)	$ (191,898)	$ (172,537)
Projected benefit obligation	$ 916,791	$ 954,886	$ 1,017,137	$ 967,817	$ 921,794
PBO (unfunded) status	$ (244,998)	$ (259,017)	$ (275,441)	$ (195,785)	$ (176,026)
ABO funded status	85.6%	84.8%	79.3%	80.1%	81.2%
PBO funded status	73.3%	72.9%	72.9%	79.8%	80.9%
Employer contributions to the plan	$ 65,000	$ 65,000	$ 65,000	$ -	$ 2,496

Pension Cost (continued)

($ in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Components of net periodic pension cost:					
Service cost	$ 35,779	$ 41,070	$ 41,662	$ 14,061	$ 1,473
Interest cost	38,291	38,137	40,869	34,597	34,323
Expected return on plan assets	(37,013)	(41,177)	(45,724)	(47,094)	(46,392)
Amortization of prior service cost (benefit)	1,134	1,134	611	(986)	(258)
Amortization of loss	24,811	28,335	26,367	24,715	20,773
Settlements	-	-	-	-	11,804
Periodic pension expense	63,002	67,499	63,785	25,293	21,723
Frozen pension plan curtailment credit	-	-	(7,119)	(5,002)	-
Net pension expense	$ 63,002	$ 67,499	$ 56,666	$ 20,291	$ 21,723
Pension benefit obligation:					
Balance at beginning of year	$ (237,167)	$ (244,998)	$ (259,017)	$ (275,441)	$ (195,785)
Current year net periodic pension cost	(63,002)	(67,499)	(56,666)	(20,291)	(21,723)
Curtailment (effect of partial plan freeze)	-	-	45,926	64,241	-
Current year cash contribution	65,000	65,000	65,000	-	2,496
FASB pension liability adjustment	(9,829)	(11,520)	(70,684)	35,706	38,986
Balance at end of year	$ (244,998)	$ (259,017)	$ (275,441)	$ (195,785)	$ (176,026)

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)

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

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
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)

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

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Changes in patient accounts receivable:					
Patient accounts receivable beginning of year - net	$ 21,326	$ 20,180	$ 22,342	$ 21,971	$ 30,723
Patient billings - net of contractual allowances and charity care	144,575	150,635	153,314	158,972	162,092
Provision for uncollectible amounts	(8,402)	(6,450)	(6,997)	(7,302)	(8,272)
Provision %	6%	4%	5%	5%	5%
Cash payments received	(137,309)	(141,975)	(146,693)	(144,485)	(156,835)
Year end adjustments:					
Unbilled patient services and other adjustments - net	18	(30)	(245)	12	(996)
Allowance for contractual write-offs and uncollectible amounts	(28)	(18)	250	1,555	(684)
Patient accounts receivable end of year - net	$ 20,180	$ 22,342	$ 21,971	$ 30,723	$ 26,028
End of year patient accounts receivable:					
Patient accounts receivable	$ 21,510	$ 23,445	$ 23,063	$ 32,117	$ 27,520
Allowance for uncollectible amounts	(1,330)	(1,103)	(1,092)	(1,394)	(1,492)
Allowance %	6%	5%	5%	4%	5%
Patient accounts receivable end of year - net	$ 20,180	$ 22,342	$ 21,971	$ 30,723	$ 26,028

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.

Pledges Receivable – Allowance for Uncollected Pledges (continued)

The following table provides an analysis of the changes in pledges receivable for the past five years:

($ in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Changes in pledges receivable:					
Pledges receivable beginning of year - net	$ 417,617	$ 503,267	$ 519,136	$ 603,814	$ 648,341
New pledges - net of discount	186,222	134,192	234,073	240,207	148,617
Pledge payments	(90,865)	(127,399)	(155,108)	(205,042)	(234,440)
Pledge corrections and write-offs	(14,059)	(6,258)	(6,576)	(7,594)	(4,009)
Current year amortization of discount	13,869	17,097	21,698	21,903	30,869
(Increase) decrease in the allowance for uncollectible pledges	(9,517)	(1,763)	(9,409)	(4,947)	5,896
Pledges receivable end of year - net	$ 503,267	$ 519,136	$ 603,814	$ 648,341	$ 595,274
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)
	7%	7%	7%	8%	7%
Pledges receivable end of year	$ 503,267	$ 519,136	$ 603,814	$ 648,341	$ 595,274