THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

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KPMG LLP
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Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
The University of Chicago Medical Center:

We have audited the accompanying consolidated financial statements of The University of Chicago Medical Center, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Chicago Medical Center as of June 30, 2020 and 2019, and the results of its consolidated operations and changes in net assets without donor restrictions, changes in its consolidated net assets and of its consolidated cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(b) to the consolidated financial statements, in 2019, The University of Chicago Medical Center adopted new accounting guidance for Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2020 supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
November 4, 2020

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Balance Sheets

June 30, 2020 and 2019

(In thousands)

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	538,725	174,122
Patient accounts receivable		333,676	399,130
Current portion of investments limited to use		58,500	19,292
Current portion of malpractice self-insurance receivable		14,508	15,266
Current portion of pledges receivable		1,177	1,434
Prepaids, inventory, and other current assets		176,998	155,424
Total current assets		1,123,584	764,668
Investments limited to use, less current portion		1,227,624	1,243,928
Property, plant, and equipment, net		1,558,348	1,567,756
Pledges receivable, less current portion		1,521	1,438
Malpractice self-insurance receivable, less current portion		81,091	85,361
Other assets, net		108,664	54,891
Total assets	$	4,100,832	3,718,042
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	256,369	241,248
Current portion of long-term debt		20,430	18,098
Current portion of other long-term liabilities		11,766	725
Estimated third-party payor settlements and Medicare Advance		536,847	263,259
Current portion of malpractice self-insurance liability		24,441	15,266
Due to University of Chicago		37,649	30,769
Total current liabilities		887,502	569,365
Other liabilities:			
Workers' compensation self-insurance liabilities, less current portion		9,441	6,396
Malpractice self-insurance liability, less current portion		135,029	128,462
Long-term debt, less current portion		966,406	987,858
Interest rate swap liability		193,907	136,186
Other long-term liabilities, less current portion		112,769	40,302
Total liabilities		2,305,054	1,868,569
Net assets:			
Without donor restrictions		1,684,093	1,736,382
With donor restrictions		111,685	113,091
Total net assets		1,795,778	1,849,473
Total liabilities and net assets	$	4,100,832	3,718,042

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Operating revenues:			
Patient service revenue	$	2,049,957	2,121,969
Other operating revenues and net assets released from restrictions used for operating purposes		497,747	265,533
Total operating revenues		2,547,704	2,387,502
Operating expenses:			
Salaries, wages, and benefits		1,064,665	992,398
Supplies and other		860,110	767,042
Physician services		301,453	283,142
Insurance		30,055	28,982
Interest		42,257	44,456
Medicaid provider tax		66,640	66,640
Depreciation and amortization		131,609	128,198
Total operating expenses		2,496,789	2,310,858
Operating revenue in excess of expenses		50,915	76,644
Nonoperating gains and losses:			
Investment income, net		31,033	60,092
Change in fair value of nonhedged derivative instruments		(2,318)	(2,003)
Derivative ineffectiveness on hedged derivative instruments		(395)	1,190
Other, net		(3,677)	7,706
Revenue and gains in excess of expenses and losses		75,558	143,629
Other changes in net assets without donor restrictions:			
Net asset transfers to University of Chicago		(71,750)	(71,750)
Change in accrued pension benefits other than net periodic benefit costs		(2,823)	(14,787)
Effective portion of change in valuation of derivatives		(53,268)	(29,233)
Net assets released from restriction for capital purposes		5	462
Distributions and other, net		(11)	(738)
(Decrease) increase in net assets without donor restrictions	$	(52,289)	27,583

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Net assets without donor restrictions:			
Revenue and gains in excess of expenses and losses	$	75,558	143,629
Net asset transfers to University of Chicago, net		(71,750)	(71,750)
Change in accrued pension benefits other than net periodic benefit cost		(2,823)	(14,787)
Effective portion of change in valuation of derivatives		(53,268)	(29,233)
Net assets released from restrictions for capital purposes		5	462
Distributions and other, net		(11)	(738)
(Decrease) increase in net assets without donor restrictions		(52,289)	27,583
Net assets with donor restrictions:			
Contributions		5,671	4,443
Net assets released from restrictions used for operating purposes		(8,549)	(7,072)
Investment income		1,477	4,714
Net assets released from restrictions for capital purposes		(5)	(462)
Increase (decrease) in temporarily restricted net assets		(1,406)	1,623
Change in net assets		(53,695)	29,206
Net assets at beginning of year		1,849,473	1,820,267
Net assets at end of year	$	1,795,778	1,849,473

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)	2020	2019
Cash flows from operating activities:		
Change in net assets	$ (53,695)	29,206
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net change in unrealized gains and losses on investments	19,902	(14,057)
Net asset transfers to University of Chicago	71,750	71,750
Restricted contributions and investment return	(7,148)	(9,157)
Realized gains on investments	(38,505)	(31,705)
Net change in valuation of derivatives	57,721	31,774
Change in accrued pension benefits other than net period benefit cost and other	2,823	14,787
Loss on refinancing of long-term debt	2,347	—
Loss on disposal of assets	4,135	—
Net assets released from restrictions for operations	8,549	7,072
Payment of lease obligations	(8,383)	—
Depreciation and amortization	131,609	128,198
Changes in assets and liabilities:		
Patient accounts receivable	65,454	(51,260)
Other assets	(8,719)	(43,412)
Accounts payable and accrued expenses	12,013	(11,694)
Due to University of Chicago	6,880	(6,038)
Estimated settlements with third-party payors and Medicare Advance	273,588	49,075
Self-insurance liabilities	18,787	(303)
Other liabilities	27,642	(9,846)
Net cash provided by operating activities	586,750	154,390
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(117,654)	(90,555)
Change in construction payables	(3,108)	1,518
Purchases of investments	(614,131)	(437,136)
Sales of investments	609,830	428,963
Net cash used in investing activities	(125,063)	(97,210)
Cash flows from financing activities		
Proceeds from issuance of long-term debt, including bond premium	128,360	—
Additional repayment of long-term debt	(120,640)	—
Payment of finance lease obligation	(2,466)	—
Payments on long-term obligations	(29,187)	(25,144)
Draws on revolving credit facility	100,000	—
Payments on revolving credit facility	(100,000)	—
Net asset transfers to University of Chicago, net	(71,750)	(71,750)
Net assets released from restriction for operations	(8,549)	(7,072)
Restricted contributions and investment return	7,148	9,157
Net cash used in financing activities	(97,084)	(94,809)
Net increase (decrease) in cash and cash equivalents	364,603	(37,629)
Cash and cash equivalents:		
Beginning of year	174,122	211,751
End of year	$ 538,725	174,122
Non-cash transactions:		
Other assets included for right-of-use assets – operating leases as a result of adopting ASU No. 842, *Leases*	53,043	—

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

The accompanying consolidated financial statements represent the accounts of The University of Chicago Medical Center and its affiliates (the System). The University of Chicago Medical Center (UCMC) is the parent of an integrated nonprofit health care organization, partnering with the University of Chicago Biological Sciences Division, the University of Chicago Pritzker School of Medicine, and the University of Chicago Physicians Group to provide world-class medical care in an academic setting. UCMC operates the Center for Care and Discovery, the Bernard Mitchell Hospital, the Chicago Lying-In Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, the University of Chicago Medicine Care Network, the UCM Community Health and Hospital Division, Inc. (CHHD), and various other outpatient clinics and treatment areas. In May 2018, UCMC opened its Level 1 Trauma Center to serve the South Side of Chicago and surrounding community.

On June 28, 2019 UCMC amended its Obligated Group to include the following entities: UCMC (excludes the University of Chicago Medicine Care Network, UCMC Title Holding Corporation and UCMC Title Holding Corporation II NFP), Ingalls Health System, Ingalls Memorial Hospital, Ingalls Development Foundation, and Ingalls Home Care as presented in the supplemental consolidating schedules. Entities of UCMC that are included in the Non-Obligated Group are the University of Chicago Medicine Care Network, University of Chicago Medicine Medical Group, UCMC Title Holding Corporation, and UCMC Title Holding Corporation II NFP. Entities of CHHD that are included in the Non-Obligated Group are Ingalls Provider Group, Ingalls Care Network, Medcentrix, Ingalls Health Ventures, Ingalls Casualty Insurance, and Ingalls Same Day Surgery. These are presented in the supplemental schedules as "Other Non-Obligated Group Entities" for purposes on consolidation.

The University of Chicago (the University), as the sole corporate member of UCMC, elects UCMC's Board of Trustees and approves its bylaws. The UCMC President reports to the University's Executive Vice President for Medical Affairs. The relationship between UCMC and the University is defined in the Medical Center bylaws, an affiliation agreement, an operating agreement, and several leases. See note 4 for agreements and transactions with the University.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements of the System have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842).* ASU No. 2016-02 which requires entities to recognize all leased assets as assets on the consolidated balance sheet with a corresponding liability. Entities are also required to present additional disclosures as to the nature and extent of leasing activities. The System implemented the new standard effective July 1, 2019. Presentation of the right-of-use (ROU) asset and lease liabilities within the consolidated balance sheets as well as other factors impacting the recording of leases as dictated by ASU No. 2016-02 is included in note 12 to the consolidated financial statements.

(c) COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues for most of our services were significantly impacted in the last two weeks of the third quarter of fiscal year 2020 and continued to be impacted in the fourth quarter of 2020. Various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic that have caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by health care facilities. While some of these restrictions have been eased across the U.S. and most states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are reimposing certain restrictions due to increasing rates of COVID-19 cases. Patient volumes and revenues experienced gradual improvement beginning in the latter part of April and continuing through the end of the quarter.

During the fourth quarter of fiscal year 2020, the System received approximately $200,643 in general and targeted Provider Relief Fund distributions, as provided for under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. Of this amount, $44,480 was received from the $50 billion general distribution fund, and $156,163 was received from the targeted distributions from the CARES Act Provider Relief Fund. Generally these distributions from the Provider Relief Fund are not subject to repayment, provided the recipient is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on operating results through June 30, 2020, the System recognized $149,028, related to these general distribution funds as part of ‘other operating revenue’ in the consolidated statement of operations and changes in net assets without donor restrictions. The unrecognized amount of general distributions and targeted distributions are recorded as estimated third-party payor settlements and Medicare Advance in the consolidated balance sheet as of June 30, 2020. The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on our revenues and expenses. If the System is unable to attest to or comply with current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

In addition, during the fourth quarter of fiscal year 2020, the System received $214,500 of accelerated Medicare payments under the Medicare Advanced Payment Program (APP). APP payments allow eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. After 120 days of receipt, claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments for acute care hospitals and within 120 days for other healthcare providers. As of June 30, 2020, the System has recorded the APP payments as estimated third-party payor settlements and Medicare advance on the consolidated balance sheet.

(Continued)

On September 19, 2020 and again on October 22, 2020, the Department of Health and Human Services provided Post-Payment Notice of Reporting Requirements for providers that received funding under the CARES Act. The provisions within this notice provide new guidance on healthcare related expenses attributable to COVID-19 and "lost revenue." The guidance is considered a Type II subsequent event and are therefore not reflected as of June 30, 2020. The System is in the process of considering the future impact of this new guidance.

On September 30, 2020, federal legislation extended the terms of APP payments such that any claims for services provided to Medicare beneficiaries will be applied against the advance payment balance beginning 365 days after receipt.

The CARES Act also provides for a deferral of payments of the employer portion of social security payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. The System has deferred payroll taxes and recorded the deferral under the caption of accrued expenses on the consolidated balance sheet. Additionally, the CARES Act provides for a payroll tax credit designed to encourage retention of employees during the pandemic. The System is evaluating its eligibility and related data for consideration of the employee retention credit.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Community Benefits

The System's policy is to treat patients in immediate need of medical services without regard to their ability to pay for such services, including patients transferred from other hospitals under the provisions of the Emergency Medical Treatment and Active Labor Act. UCMC also accepts patients through the Perinatal and Pediatric Trauma Networks without regard to their ability to pay for services.

The System developed a Financial Assistance Policy (the Policy) under which patients are offered discounts of up to 100% of charges on a sliding scale. The Policy is based both on income as a percentage of the Federal Poverty Level guidelines and the charges for services rendered. The Policy also contains provisions that are responsive to those patients subject to catastrophic healthcare expenses. Since the System does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing care under this Policy, along with the unreimbursed cost of government sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research, and other community programs for the years ended June 30, 2020 and 2019, are reported in note 6.

(f) Fair Value of Financial Instruments

Fair value is defined as the price that the System would receive upon selling an asset or pay to settle a liability in an orderly transaction among market participants.

The System uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the System. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical investments

Level 2 – Inputs other than quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or inputs other than quoted prices that are observable, including model-based valuation techniques

Level 3 – Valuation techniques that use significant inputs that are unobservable because they trade infrequently or not at all.

(g) Cash and Cash Equivalents

Cash equivalents include U.S. Treasury notes, commercial paper, and corporate notes with original maturities of three months or less, excluding investments whose use is limited. Cash equivalents held by investment managers are treated as investing activity in the statement of cash flows.

(h) Inventory

The System values inventories at the lower of cost or market using the first-in, first-out method.

(i) Investments

Investments are classified as trading securities. As such, investment income or loss (including realized or changes in unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue and gains over expenses and losses unless the income is restricted by donor or law.

Investments are recorded in the consolidated financial statements at estimated fair value. If an investment is held directly by an entity and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The System's interests in alternative investment funds, such as private debt, private equity, real estate, natural resources, and absolute return, are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2020 and 2019, the System had no plans to sell investments at amounts different from NAV.

A significant portion of the System's investments are part of the University's Total Return Investment Pool (TRIP). The System accounts for its investments in TRIP on the fair value method based on its share of the underlying securities and, accordingly, records the investment activity as if the System owned the investments directly using the fair value option election. The University does not engage directly in unhedged speculative investments; however, the Board of the University has authorized the use of derivative investments to adjust market exposure within asset class ranges.

A summary of the inputs used in valuing the System's investments as of June 30, 2020 and 2019 is included in note 7.

(j) Investments Limited as to Use

Investments limited as to use primarily include assets held by trustees under debt and other agreements and designated assets set aside by the Board of Trustees (the Board) for future capital improvements and other specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes. Investments limited as to use also include investments held under swap collateral posting requirements, investments under the workers' compensation self-insurance trust funds, and investments whose use is restricted by donors. Investments limited as to use are reported as net assets without donor restrictions. Investments whose use is restricted by donors are reported as net assets with donor restrictions.

(k) Derivative Instruments

The System accounts for derivatives and hedging activities in accordance with Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded as either assets or liabilities in the consolidated balance sheet at their respective fair values.

For hedging relationships, the System formally documents the hedging relationship and its risk management objective and strategy for understanding the hedge, the hedging instrument, the nature of the risk being hedged, how the hedging investment's effectiveness in offsetting the hedged risk will be assessed, and a description of the method for measuring ineffectiveness. This process includes linking all derivatives that are presented as cash flow hedges to specific assets and liabilities in the consolidated balance sheet.

(l) Property, Plant, and Equipment

Property, plant, and equipment are reported on the basis of cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over their estimated useful lives, which generally range from three to eighty years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets with explicit restrictions by donors that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The System periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment based on estimated, undiscounted future cash flows exist. Management considers factors, such as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. There were no impairments of long-lived assets during 2020 or 2019.

(m) Net Assets

Net assets are classified into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the System: patient care and provision of healthcare services. In addition to these exchange transactions, changes in this category of net assets include investment returns on “funds functioning as endowment” funds, actuarial adjustments to self-insurance liabilities, changes in post retirement benefit obligations, and other types of philanthropic support. The philanthropic support includes gifts without restriction, board designated funds functioning as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as previously restricted gifts and grants for buildings and equipment that have been placed in service.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the System or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service; endowment, annuity, and life income gifts; pledges and investment returns on “true” endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

Also included in net assets with donor restrictions are net assets subject to donor-imposed restrictions to be maintained permanently by the System, including gifts and pledges wherein donors stipulate that the principal/corpus of the gift be held in perpetuity and that only the income be made available for program operations. Other permanently restricted items in this net asset category include annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

(Dollars in thousands)

The description of amounts classified as donor restricted net assets (endowments only) as of June 30, 2020 and 2019 is as follows:

		Perpetual	Time restricted by donor	Time restricted by law	2020 Total
Restricted for pediatric healthcare	$	4,023	—	17,093	21,116
Restricted for adult healthcare		4,061	—	56,337	60,398
Restricted for educational and scientific programs		9,196	—	2,589	11,785
	$	17,280	—	76,019	93,299

		Perpetual	Time restricted by donor	Time restricted by law	2019 Total
Restricted for pediatric healthcare	$	4,058	—	17,673	21,731
Restricted for adult healthcare		4,117	—	57,255	61,372
Restricted for educational and scientific programs		9,323	—	2,862	12,185
	$	17,498	—	77,790	95,288

The endowment component of net assets without donor restrictions comprises of amounts designated by the Board to function as endowment, which amounted to $911,642 and $923,571 included within investments limited to use as of June 30, 2020 and 2019, respectively.

(n) Consolidated Statement of Operations and Changes in Net Assets Without Donor Restrictions

All activities of the System deemed by management to be ongoing, major, and central to the provision of healthcare services are reported as operating revenue and expenses.

The consolidated statement of operations and changes in net assets without donor restrictions includes revenue and gains in excess of expenses and losses. Changes in net assets without donor restrictions that are excluded from revenue and gains in excess of expenses and losses include net asset transfers to the University, contributions of long-lived assets released from restrictions (including assets acquired using contributions, which by donor restriction were to be used for acquisition of System assets), net assets released from restriction for capital purchases, the effective portion of changes in the valuation of derivatives, change in accrued pension benefits other than net periodic benefit costs, and other, net.

(o) Patient Service Revenue, Accounts Receivable, Charity Care, and Third Party Settlements

(i) Patient Service Revenues

Gross charges are retail charges and generally do not reflect what the System is ultimately paid and, therefore, are not displayed in the consolidated statements of operations and changes in net assets without donor restrictions. The System is typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts (such as stop-loss payments). Because Medicare requires that gross charges be the same for all patients (regardless of payer category), gross charges are what is charged to all patients prior to the application of discounts and allowances.

The System recognizes revenue in the period in which it satisfies the performance obligations under contracts by transferring the services to its customers. The performance obligations for patient contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, the System does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. Revenues are recognized in the amounts to which it expects to be entitled, which are the transaction prices allocated to the distinct services.

The System has agreements with governmental and other third-party payors that provide for payments to the System at amounts different from established charges. Payment arrangements for major third-party payors may be based on prospectively determined rates, reimbursed cost, discounted charges, per diem payments, or other methods. The transaction price is determined based on gross charges for services provided, reduced by explicit price concessions provided to third-party payers, discounts provided to uninsured patients in accordance with the Financial Assistance Program, and implicit price concessions provided primarily to uninsured patients. The estimates of explicit price concessions and discounts are based on contractual agreements, discount policies, and historical experience. The estimates of implicit price concessions are based on historical collection experience with these classes of patients using the portfolio approach.

(ii) Charity Care

The System provides charity care to patients who meet the criteria for charity care as published in their Financial Assistance Policy. Patients who qualify are provided care without charge or at amounts less than established rates. System policy is not to pursue collection of amounts determined to qualify as charity care; therefore, they do not report these amounts in patient service revenues. Patient advocates from the System screen patients in the hospital to determine whether those patients meet eligibility requirements for financial assistance programs. They also expedite the process of applying for government programs.

(iii) Third Party Settlements

Revenues under the traditional fee-for-service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as Indirect Medical Education, Direct Graduate Medical Education, disproportionate share hospital, and bad debt expense reimbursement, which are based on the hospitals' cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. Because the laws, regulations, instructions, and rule interpretations governing Medicare and Medicaid reimbursement are complex and change frequently, the estimates recorded could change by material amounts.

The System has an estimation process for recording Medicare patient service revenue and estimated cost report settlements. As a result, the System record accruals to reflect the expected final settlements on our cost reports. For filed cost reports, the System records the accrual based on those cost reports and subsequent activity and record a valuation allowance against those cost reports based on historical settlement trends. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what are expected to report on the filed cost reports, and a corresponding valuation allowance is recorded as previously described. Cost reports generally must be filed within five months after the end of the annual cost reporting period. After the cost report is filed, the accrual and corresponding valuation allowance may need to be adjusted.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payor and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from the finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in patient service revenues of $9,152 and $190, for the years ended June 30, 2020 and 2019, respectively.

(p) Hospital Assessment Program/Medicaid Provider Tax

In December 2008, the State of Illinois, after receiving approval by the federal government, implemented a hospital assessment program for the period from July 1, 2008 through June 30, 2013. The program was extended in July 2012 to December 31, 2014 and again in June 2014 to June 30, 2018. In June 2018, the State of Illinois approved SB 1773, which was signed into Illinois Public Law 100-581. The law redesigned the original program as well as the ACA program described below. Under the program, most hospitals in the State of Illinois will provide funding to the state government, which is subsequently matched by the federal government yielding increased Medicaid reimbursement.

In March 2010, the federal government passed the ACA, which expanded Medicaid coverage to millions of low-income Americans and made improvements to both the Medicaid and the Children's Health Insurance Program. Beginning in 2016, coverage for newly eligible adults was expanded to include adults covered by an authorized Medicaid managed care organization, which would be funded by the federal government. Both changes were part of the original assessment program described above and were collapsed into the hospital assessment redesign effective July 1, 2018 through December 31, 2022.

In 2020, reimbursement under the assessment programs resulted in a net increase of $72,489 in operating income, which includes $139,129 in Medicaid payments included in patient service revenue offset by $66,640 in Medicaid provider tax expense. In 2019, reimbursement under the assessment programs resulted in a net increase of $65,962 in operating income, which includes $132,602 in Medicaid payments included in patient service revenue offset by $66,640 in Medicaid provider tax expense.

(q) Other Revenue

Other operating revenue includes revenue from nonpatient care services, clinical space rental revenue, contributions both unrestricted in nature and those released from restriction to support operating activities, related grant income, premium and capitation revenues and other miscellaneous income.

Premium and capitation revenues are received and recognized as revenue ratably over the period for which the enrolled member is entitled to healthcare services. The timing of the System's performance may differ from the timing of the payment received, which may result in the recognition of a contract asset or a contract liability. The System has no material contract assets or liabilities at June 30, 2020 relating to premium and capitation revenue.

Revenue from grants is recognized in accordance with ASC Subtopic 958-605, *Not-for-profit entities – Revenue recognition*, as other operating revenue, when the conditions of the contributions are substantially met.

Revenue from non-grant sources is generally recognized at point of service for these transactions in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

(r) Income Taxes

The System applies ASC Topic 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC Topic 740 prescribes a more likely than not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC Topic 740, tax positions are evaluated for recognition, derecognition, and measurement using consistent criteria and provide more information about the uncertainty in income tax assets and liabilities. As of June 30, 2020 and 2019, the System does not have an asset or liability recorded for unrecognized tax positions.

UCMC and CHHD Obligated Groups are comprised of subsidiaries that are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and therefore exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. UCMC and CHHD

Non-Obligated Groups consist of several not-for-profit and taxable entities, including University of Chicago Medicine Care Network, LLC; Ingalls Captive Insurance, Ltd; Medcentrix, Inc.; Ingalls Same Day Surgery; and Ingalls Provider Group (IPG), which are taxable entities under applicable sections of the Code.

Deferred income taxes on the taxable entities of the Non-Obligated Groups are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the consolidated financial statement carrying amounts and the tax bases of existing assets and liabilities. As of June 30, 2020 and June 30, 2019, the UCMC and CHHD nonobligated groups have deferred tax assets primarily relating to net operating losses (NOL) of $16,431 and $17,162, respectively; however, it has a full valuation allowance as management believes that it was not more likely than not that the results of future operations would generate sufficient taxable income to realize the NOL.

(s) Reclassifications

Certain 2019 amounts have been reclassified to conform to the 2020 consolidated financial statement presentation.

(t) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the System evaluated events and transactions through November 4, 2020, the date the consolidated financial statements were issued, noting no subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements other than the items noted within the notes to the consolidated financial statements.

(Dollars in thousands)

(3) Financial Assets and Liquidity Resources

As of June 30, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

		2020	2019
Financial assets:			
Cash and cash equivalents	$	538,725	174,122
Patient accounts receivable		333,676	399,130
Total financial assets available within one year		872,401	573,252
Liquidity resources:			
Bank lines of credit		200,000	100,000
Total financial assets and liquidity resources available within one year	$	1,072,401	673,252
Current liabilities:			
Accounts payable and accrued expenses	$	256,369	241,248
Estimated third-party payor settlements		536,847	263,259
Current portion of long-term debt		20,430	18,098
Other current liabilities		11,766	725
Total current liabilities	$	825,412	523,330

The System's cash flows have seasonal variations during the year attributable to patient service reimbursement from the State of Illinois, payments from patients and insurance. As discussed in note 10(d), to manage liquidity, the System maintains lines of credit with financial institutions to potentially draw funds as needed during the year to manage cash flows. As of June 30, 2020, amounts outstanding under lines of credit amounted to $0. In addition, as of June 30, 2020, the System has $911,642 in funds functioning as endowment and $209,450 of CHHD investments, all available for general expenditure upon Board approval, of which $682,595 is liquid within 12 months. As of June 30, 2019, the System had $923,571 in funds functioning as endowment and $213,383 of CHHD investments, all available for general expenditure upon Board approval, of which $761,284 was liquid within 12 months.

(4) Agreements and Transactions with the University

The affiliation agreement with the University provides, among other things, that all members of the medical staff will have academic appointments in the University. The affiliation agreement has an initial term of 40 years ending October 1, 2026 unless sooner terminated by mutual consent or as a result of a continuing breach of a material obligation therein or in the operating agreement. The affiliation agreement automatically renews for additional successive 10-year terms following expiration of the initial term, unless either party provides the other with at least two years' prior written notice of its election not to renew.

The operating agreement, as amended, provides, among other things, that the University provides UCMC the right to use and operate certain facilities. The operating agreement is coterminous with the affiliation agreement.

The lease agreements provide, among other things, that UCMC will lease from the University certain of the healthcare facilities and land that UCMC operates and occupies. The lease agreements are coterminous with the affiliation agreement.

UCMC purchases various services from the University, including certain employee benefits, utilities, security, telecommunications, and insurance. In addition, certain UCMC accounting records are maintained by the University. During the years ended June 30, 2020 and 2019, the University charged UCMC $32,392 and $31,036, respectively, for utilities, security, telecommunications, insurance, and overhead.

The University’s Division of Biological Sciences provides physician services to UCMC. In 2020 and 2019, UCMC recorded $271,868 and $259,650, respectively, in expense related to these services.

UCMC’s Board of Trustees adopted a plan of support under which it would provide annual net asset transfers to the University for support of academic programs in biology and medicine. All commitments under this plan are subject to the approval of UCMC’s Board of Trustees and do not represent legally binding commitments until that approval. Unpaid portions of commitments approved by the UCMC Board of Trustees are reflected as current liabilities. UCMC recorded net asset transfers of $71,750 in both 2020 and 2019 for this support.

(5) Patient Service Revenue and Patient Receivables

The System has agreements with third-party payors that provide for reimbursement at amounts different from their established rates. A summary of the reimbursement methodologies with major third-party payors is as follows:

(a) Medicare

The System is paid for various services rendered to Medicare program beneficiaries under prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. The System’s classification of patients under the prospective payment systems and the appropriateness of the patients’ admissions are subject to validation reviews.

Other services rendered to Medicare beneficiaries are reimbursed based on a combination of prospectively determined rates and cost reimbursement methodologies. For the cost reimbursement, the System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits by the Medicare fiscal intermediary. UCMC’s Medicare reimbursement reports through June 30, 2014 have been audited by the Medicare fiscal intermediary. CHHD’s Medicare reimbursement reports through September 30, 2014 have been audited by the Medicare fiscal intermediary.

(Dollars in thousands)

(b) Medicaid

The System is paid for inpatient acute care services rendered to Medicaid program beneficiaries under prospectively determined rates per discharge. For inpatient acute care services, payment rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are reimbursed based on fee schedules. Medicaid reimbursement methodologies may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the State of Illinois Medicaid program and any such changes could have a significant effect on the System's revenue.

(c) Blue Cross

The System also participates as a provider of healthcare services under reimbursement agreements with Blue Cross under its indemnity program. The provisions of the agreements stipulate that services will be reimbursed at a tentative reimbursement rate and that final reimbursement for these services is determined after the submission of an annual cost report by the System and a review by Blue Cross. UCMC's and CHHD's Blue Cross reimbursement reports for 2019 and prior years have been reviewed by Blue Cross.

(d) Other

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements is negotiated by the System and includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Patient service revenue recognized in the period from these major payor sources are as follows:

		2020	2019
Medicare	$	610,312	597,322
Medicaid		467,352	463,259
Managed care		962,261	1,054,753
Patients and other		10,033	6,635
Patient service revenue	$	2,049,958	2,121,969

Patient service revenue recognized in the period by type of service is as follows:

		2020	2019
Inpatient	$	1,117,235	1,108,813
Outpatient/Ambulatory care		912,195	987,717
Physician services		20,527	25,439
	$	2,049,957	2,121,969

(Continued)

(Dollars in thousands)

The mix of receivables from patients and third-party payors as of June 30, 2020 and 2019 is as follows:

	2020	2019
Medicare	23.5 %	19.0 %
Medicaid	31.8	35.1
Managed care	42.0	44.6
Patients and other	2.7	1.3
	100.0 %	100.0 %

(6) Community Benefits

The following is a summary of the System's unreimbursed cost of providing care, as defined under its Financial Assistance Policy, along with the unreimbursed cost of government-sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research, and other community programs for the years ended June 30, 2020 and 2019:

	2020	2019
Uncompensated care:		
Medicaid sponsored indigent healthcare	$ 140,705	70,991
Medicare sponsored indigent healthcare – cost report	163,249	162,160
Medicare sponsored indigent healthcare – physician services	43,786	21,751
Total uncompensated care	347,740	254,902
Charity care	47,033	33,266
	394,773	288,168
Unreimbursed education and research:		
Education (unaudited)	62,066	59,528
Research (unaudited)	48,000	48,000
Total unreimbursed education and research	110,066	107,528
Total community benefits	$ 504,839	395,696

The System determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, to determine a cost-to-charge ratio. The cost to charge ratio is applied to the charity care gross charges to calculate the charity care amount reported above. The System has not amended its financial assistance policies in 2020.

(Dollars in thousands)

(7) Investments Limited as to Use

The composition of investments limited as to use is as follows at June 30, 2020 and 2019:

	2020				
	Separately invested	TRIP	Other	Total	2019
Investments carried at fair value:					
Cash equivalents	$ 157,738	39,241	200	197,179	12,587
Global public equities	27,899	338,192	—	366,091	396,369
Private debt	—	50,082	—	50,082	48,412
Private equity:					
U.S. venture capital	238	73,468	—	73,706	68,637
U.S. corporate finance	—	40,391	—	40,391	37,173
International	—	87,384	—	87,384	66,522
Real assets:					
Real estate	—	56,175	—	56,175	59,443
Natural resources	—	51,808	—	51,808	63,373
Absolute return:					
Equity oriented	—	71,163	—	71,163	60,733
Global macro/relative value	—	31,161	—	31,161	48,038
Multistrategy	—	60,177	—	60,177	65,510
Credit oriented	—	39,622	—	39,622	52,344
Protection oriented	—	19,072	—	19,072	18,402
Fixed income:					
U.S. Treasuries, including TIPS	—	57,011	—	57,011	58,529
Other fixed income	4	—	—	4	163,168
Other:					
Beneficial interests in trust	—	—	9,085	9,085	9,303
Funds in trust	—	—	76,013	76,013	34,677
Total investments	$ 185,879	1,014,947	85,298	1,286,124	1,263,220

Investments classified as other consist of construction and debt proceeds to pay interest, donor restricted investments in beneficial interests in trusts, workers' compensation, self-insurance, and trustee-held funds. Investments limited as to use are classified as current assets to the extent that they are available to meet current liabilities. Investments are presented in the consolidated financial statements as follows:

	2020	2019
Current portion of investments limited to use	$ 58,500	19,292
Investments limited to use, less current portion	1,227,624	1,243,928
Total investments limited to use	$ 1,286,124	1,263,220

(Dollars in thousands)

A summary of investments limited as to use for the years ended June 30 is as follows:

	2020			
	UCMC	CHHD	Total	2019
Investments limited as to use:				
By the board for capital improvements/restrictions by donors	$ 160,913	34,250	195,163	267,802
Funds held by custodian/trustee under indenture agreements	145	—	145	185
Funds held by trustee for self-insurance	6,166	14,603	20,769	20,742
Collateral for interest rate swap	53,160	1,940	55,100	13,750
TRIP investments	830,662	184,285	1,014,947	960,741
Total investments limited to use	$ 1,051,046	235,078	1,286,124	1,263,220

The composition of investment income, net is as follows for the years ended June 30:

	2020			
	UCMC	CHHD	Total	2019
Interest and dividend income, net	$ 10,250	2,180	12,430	14,330
Realized gains on sales of securities, net	32,887	5,618	38,505	31,705
Change in unrealized gains and losses on securities, net	(19,354)	(548)	(19,902)	14,057
	$ 23,783	7,250	31,033	60,092

Outside of TRIP, UCMC also invests in private equity limited partnerships. As of June 30, 2020, UCMC has commitments of $1,681 remaining to fund private equity limited partnerships.

Fair Value of Financial Instruments

The overall investment objective of the System is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The System diversifies its investments among various asset classes incorporating multiple strategies and external investment managers, including the University Investment Office. Major investment decisions for investments held in TRIP and managed by the University are authorized by the University Board of Trustee’s Investment Committee, which oversees the University’s investment program in accordance with established guidelines.

The carrying amount reported in the consolidated statements of financial position for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, and estimated payables under third-party reimbursement programs. Cash equivalent investments include cash equivalents and fixed-income investments, with maturities of less than three months, which are valued based on quoted market prices in active markets. The majority of these investments are held in U.S. money market accounts. Global public equity investments consist of separate accounts, commingled funds, and limited partnerships. Securities held in separate accounts and daily traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly liquidity are valued based on independently determined NAV. Limited partnership interests in equity-oriented funds are valued based upon NAV provided by external fund managers.

Investments in private debt, private equity, real estate, and natural resources are in the form of limited partnership interests, which typically invest in private securities for which there is no readily determinable market value. In these cases, market value is determined by external managers based on a combination of discounted cash flow analysis, industry comparables, and outside appraisals. Where private equity, real estate, and natural resources managers hold publicly traded securities, these securities are generally valued based on market prices. The value of the limited partnership interests is held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used by managers to assess the NAV of these external investments vary by asset class. The University's Investment Office monitors the valuation methodologies and practices of managers on behalf of the System.

The absolute return portfolio comprises investments of limited partnership interests in hedge funds and drawdown private equity style partnerships whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. The majority of the underlying holdings are marketable securities. The remainder of the underlying holdings is held in marketable securities that trade infrequently or in private investments, which are valued by the manager on the basis of an appraised value, discounted cash flow, industry comparables, or some other method. Most hedge funds that hold illiquid investments designate them in special side pockets, which are subject to special restrictions on redemption.

(Continued)

(Dollars in thousands)

Fixed-income investments consist of directly held actively traded treasuries, separately managed accounts, commingled funds, and bond mutual funds that hold securities, the majority of which have maturities greater than one year. These are valued based on quoted market prices in active markets.

Beneficial interests in trusts represent restricted investments that are assets held by third-party trustees for beneficial interests in perpetual trusts, comprising equities, fixed-income securities, and money market funds.

Funds in trust investments consist primarily of project construction funds and workers' compensation trust funds. Funds in trust comprise 1% cash and cash equivalents, 95% fixed income investments, and 4% equity investments at June 30, 2020 and comprised 1% cash and cash equivalents, 99% fixed income investments and 0% equity investments at June 30, 2019.

The System believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2020 and 2019. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed. Assets and liabilities recorded at fair value as of June 30, 2020 and 2019 were as follows:

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2020 Total
Cash and cash equivalents	$	538,725	—	—	538,725
Investments:					
Cash equivalents		197,179	—	—	197,179
Global public equities		97,864	—	—	97,864
Real assets:					
Real estate		10,270	—	—	10,270
Fixed income:					
U.S. Treasuries, including TIPS		57,011	—	—	57,011
Other fixed income		4	—	—	4
Restricted investments		—	—	9,085	9,085
Funds in trust		61,411	14,603	—	76,014
Investments measured at NAV		—	—	—	838,697
Total investments at fair value		962,464	14,603	9,085	1,824,849

(Dollars in thousands)

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2020 Total
Other assets	$	8,343	—	—	8,343
Total assets at fair value	$	970,807	14,603	9,085	1,833,192
Liabilities					
Interest rate swap payable	$	—	193,871	—	193,871
Total liabilities at fair value	$	—	193,871	—	193,871

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2019 Total
Cash and cash equivalents	$	174,122	—	—	174,122
Investments:					
Cash equivalents		12,587	—	—	12,587
Global public equities		166,427	—	—	166,427
Private equity- U.S.					
Venture Capital		5,302	—	—	5,302
Real assets:					
Real estate		16,196	—	—	16,196
Natural resources		9,660	—	—	9,660
Absolute return:					
Global macro/relative value		8,826	—	—	8,826
Fixed income:					
U.S. Treasuries, including TIPS		58,529	—	—	58,529
Other fixed income		163,168	—	—	163,168
Restricted investments		—	—	9,303	9,303
Funds in trust		18,438	16,239	—	34,677
Investments measured at NAV		—	—	—	778,535
Total investments at fair value		633,255	16,239	9,303	1,437,332

(Continued)

(Dollars in thousands)

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2019 Total
Other assets	$	7,385	—	—	7,385
Total assets at fair value	$	640,650	16,239	9,303	1,444,727
Liabilities					
Interest rate swap payable	$	—	136,186	—	136,186
Total liabilities at fair value	$	—	136,186	—	136,186

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

During 2020, there were no transfers between investment Levels 1 and 2 or between Levels 2 and 3. The interest rate swap arrangement has inputs, which can generally be corroborated by market data and is, therefore classified within Level 2.

The following table presents activity for the year ended June 30, 2020 for assets measured at fair value using unobservable inputs classified in Level 3:

		Level 3 rollforward
Beginning fair value	$	9,303
Change in unrealized gains and losses, net		(218)
Ending fair value	$	9,085

In addition, investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of the System's investments could occur in the next term and that such changes could materially affect the amounts reported in the consolidated financial statements. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The significant unobservable inputs used in the fair value measurement of the System's long-lived partnership investments include a combination of cost, discounted cash flow analysis, industry comparables, and outside appraisals. Significant changes in any inputs used by investment managers in determining NAVs in isolation would result in a significant changes in fair value measurement.

The System has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lockups, and gates. Details on typical redemption terms by asset class and type of investment are provided below:

	Remaining life	Redemption terms	Redemption restrictions and terms
Cash	N/A	Daily	None
Global public equities:			
Commingled funds	N/A	Daily to triennial with notice periods of 2 to 180 days	Lock-up provisions for up to 3 years; some investments have a portion of capital held in side pockets with no redemptions permitted
Partnerships	N/A	Monthly to biennial with notice periods of 7 to 90 days	Lock-up provisions for up to 4 years; some investments have a portion of capital held in side pockets with no redemptions permitted
Separate accounts	N/A	Daily with notice periods of 1 to 7 days	Lock-up provisions ranging for up to 1 year
Private debt:			
Drawdown partnerships	1 to 11 years	Redemptions not permitted	N/A
Partnerships	N/A	Redemptions not permitted	Capital held in side pockets with no redemptions permitted
Mutual bond and equity funds	N/A	Daily to monthly with notice periods of 1 to 30 days	None
Real estate funds	N/A	Quarterly with notice periods of 45 to 90 days	None
Funds of funds	N/A	Monthly to quarterly with notice periods of 15 to 185 days	None

	Remaining life	Redemption terms	Redemption restrictions and terms
Private equity:			
Drawdown partnerships	1 to 21 years	Redemptions not permitted	N/A
Separate accounts	N/A	Daily with notice period of 1 day	None
Partnerships	N/A	Semiannual with notice period of 90 days	A portion of capital is held in side pockets with no redemptions permitted
Real estate:			
Drawdown partnerships	1 to 16 years	Redemptions not permitted	N/A
Separate accounts	N/A	Daily with notice period of 5 days	None
Natural resources:			
Drawdown partnerships	1 to 17 years	Redemptions not permitted	N/A
Commingled funds	N/A	Daily with notice period of 1 day	None
Absolute return:			
Commingled funds	N/A	Daily to triennial with notice periods of 1 to 122 days	Lock-up provisions for up to three years; some investments have a portion of capital held in side pockets with no redemptions permitted
Drawdown partnerships	1 to 4 years	Redemptions not permitted	N/A
Partnerships	N/A	Quarterly to triennial with notice periods of 45 to 180 days	Lock-up provisions for up to five years; some investments have a portion of capital held in side pockets with no redemptions permitted
Fixed income:			
Commingled funds	N/A	Weekly to monthly with notice periods of 5 to 10 days	None
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None
Funds in trust	N/A	Daily	None

(8) Endowments

The System's endowment consists of individual donor-restricted endowment funds and board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(Dollars in thousands)

Illinois is governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Trustees of UCMC has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The System has beneficial interests in trusts. The System has recorded its share of the principal of the trusts as net assets with donor restrictions. Distributions from the trusts are recorded within net assets without restrictions if unrestricted; otherwise, they are classified as net assets with donor restrictions until appropriated for expenditure. In some instances, the historical costs basis of the funds is not available as the System received the shares in 1929. The fair value of assets associated with individual donor-restricted endowment funds may fall below the amount of the original donation as a result of unfavorable market conditions. There were no such deficiencies at June 30, 2020 and 2019, respectively.

The System has the following donor-restricted endowment activities during the years ended June 30, 2020 and 2019 delineated by net asset class:

	2020		
	Without donor restrictions	With donor restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	$ 10,250	676	10,926
Net appreciation (realized and unrealized) on investments	13,533	802	14,335
Investment return, net of payout	23,783	1,478	25,261
Endowment payout	(48,014)	(3,883)	(51,897)
Net investment return	(24,231)	(2,405)	(26,636)
Other changes in endowment investments:			
Gifts and pledge payments received in cash	8,302	10	8,312
Other changes	4,000		4,000
Total other changes in endowment investments	12,302	10	12,312
Net change in endowment investments	(11,929)	(2,395)	(14,324)

(Dollars in thousands)

		2020	
	Without donor restrictions	With donor restrictions	Total
Endowment investments at:			
Beginning of year	$ 923,571	95,694	1,019,265
End of year	$ 911,642	93,299	1,004,941
Investments by type of fund:			
Donor-restricted “true” endowment:			
Historical gift value	$ —	17,280	17,280
Appreciation	—	76,019	76,019
Board-designated “funds functioning as endowment"	911,642	—	911,642
Total – As above	$ 911,642	93,299	1,004,941

		2019	
	Without donor restrictions	With donor restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	$ 12,282	935	13,217
Net appreciation (realized and unrealized) on investments	35,953	3,779	39,732
Investment return, net of payout	48,235	4,714	52,949
Endowment payout	(41,314)	(3,900)	(45,214)
Net investment return	6,921	814	7,735
Other changes in endowment investments:			
Gifts and pledge payments received in cash	89,042	13	89,055
Other changes	3,001	—	3,001
Total other changes in endowment investments	92,043	13	92,056
Net change in endowment investments	98,964	827	99,791

(Dollars in thousands)

	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment investments at:			
Beginning of year	$ 824,607	94,867	919,474
End of year	$ 923,571	95,694	1,019,265
Investments by type of fund:			
Donor-restricted “true” endowment:			
Historical gift value	$ —	17,487	17,487
Appreciation	—	78,207	78,207
Board-designated “funds functioning as endowment"	923,571	—	923,571
Total – As above	$ 923,571	95,694	1,019,265

Investment and Spending Policies

The System has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. The System expects its endowment funds to provide an average rate of return of approximately 6% annually. To achieve its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

For endowments invested in TRIP, the Board of Trustees of the System has adopted the University’s method to be used to appropriate endowment funds for expenditure, including following the University’s payout formula. The University utilizes the total return concept in allocating endowment income. In accordance with the University’s total return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments, lagged by one year, is available each year for expenditure in the form of endowment payout. The exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5.5% for the fiscal years ended June 30, 2020 and 2019. If endowment income received is not sufficient to support the total return objective, the balance is provided from capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment.

For endowments invested apart from TRIP, the System calculates a payout of 4% annually on a rolling 24-month average market value. In establishing this policy, the Board considered the expected long term rate of return on its endowment.

(Dollars in thousands)

(9) Property, Plant, and Equipment

The components of property, plant, and equipment as of June 30 are as follows:

		2020	2019
Land and land rights	$	55,610	55,610
Buildings and improvements		1,914,984	1,847,108
Equipment		753,017	717,720
Construction in progress		21,759	30,237
		2,745,370	2,650,675
Less accumulated depreciation		(1,187,022)	(1,082,919)
Total property, plant, and equipment, net	$	1,558,348	1,567,756

The cost of buildings that are jointly used by the University and the System is allocated based on the lease provisions. In addition, land and land rights include $17,200 and $18,900 for 2020 and 2019, respectively, which represents the unamortized portion of initial lease payments made to the University.

A clinic in the Streeterville area of Chicago is under construction. Spending for this clinic during fiscal year 2020 was $13,900 with a total budget of $17,400. Capitalized interest costs in 2020 and 2019 were approximately $500 and $400, respectively. Construction in progress consists of various routine capital improvements and renovation projects. As of June 30, 2020, the System had total contractual commitments associated with ongoing capital projects of approximately $18,800.

(10) Long-Term Debt

The long-term debt of both UCMC and CHHD is issued pursuant to the second Amended and Restated Master Trust Indenture (MTI) dated as of June 1, 2019, as subsequently amended and supplemented. The Obligated Group Members are UCMC, CHHD, Ingalls Memorial Hospital, Ingalls Home Care, and Ingalls Development Foundation. Each series of bonds is collateralized by the unrestricted receivables of the obligated Group Members and subject to certain restrictions under the MTI.

Effective June 28, 2019, the CHHD Obligated Group was combined with the UCMC Obligated Group, and became subject to the second Amended and Restated Master Trust Indenture (MTI) dated as of June 1, 2019, as subsequently amended and supplemented.

(Continued)

(Dollars in thousands)

Long-term debt at June 30, 2020 and 2019 consists of the following:

	Fiscal year maturity	Interest rate	2020	2019
UCMC:				
Fixed rate:				
Illinois Finance Authority:				
Series 2009A and 2009B, 2009B partially legally defeased in 2017	2027	5.0%	$ 71,970	83,575
Series 2009D1 and 2009D2 (Synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2009E1 and 2009E2 (Synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2010A and 2010B (Synthetically fixed rate)	2045	3.9	92,500	92,500
Series 2011A and 2011B (Synthetically fixed rate)	2045	3.9	92,500	92,500
Series 2012A	2037	4.7	—	60,495
Series 2015A	2030	5.0	21,895	21,895
Series 2016A	2027	5.0	22,830	22,830
Series 2016B	2042	5.0	164,490	164,490
Teachers Insurance and Annuity Association of America (TIAA)				
Series 2017A	2047	4.4	30,000	30,000
New York Life taxable private placement:				
Series 2019E	2037	2.7	63,645	—
Unamortized premium			18,073	24,119
Total fixed rate			717,903	732,404
Variable rate:				
Series 2013A	2050	1.6(2020)/3.0(2019)	68,403	69,801
Illinois Educational Facilities Authority (IEFA)	2038	1.1(2020)/1.6(2019)	62,590	66,029
Total variable rate			130,993	135,830
Unamortized debt issuance costs			(4,891)	(6,030)
Less current portion of long-term debt			(16,625)	(15,208)
Total UCMC long-term portion of debt, less current portion			$ 827,380	846,996

(Dollars in thousands)

	Fiscal year maturity	Interest rate	2020	2019
UCMC Title Holding Corporation:				
Fixed rate:				
Brownfield Revitalization 40 – Promissory note A	2024	1.5%	$ 4,850	4,850
Urban Development Fund XLVI – Promissory note A	2024	1.5	4,850	4,850
Urban Development Fund LI – Promissory note A	2024	1.8	6,500	6,500
Citi NMTC – QLICI	2032	1.2	3,476	3,476
Citi NMTC – QLICI	2032	1.2	1,620	1,620
URP QLICI – Loan A	2047	1.0	7,334	7,334
URP QLICI – Loan B	2047	1.0	2,666	2,666
SCORE QLICI – Loan A	2047	1.0	4,176	4,176
SCORE QLICI – Loan B	2047	1.0	1,704	1,704
CNI QLICI – Loan A	2047	1.0	3,455	3,455
CNI QLICI – Loan B	2047	1.0	1,545	1,545
Total UCMC Title Holding Corporation debt			$ 42,176	42,176
Less current portion of long-term debt			(275)	—
Total UCMC Title Holding Corporation debt, excluding current portion			$ 41,901	42,176
Community Health and Hospital Division:				
Fixed Rate: Series 2013	2043	3.5–5.0%	$ —	60,145
Fixed Rate: Series 2017	2034	4.6	36,305	38,300
Fixed rate: Series 2019	2043	2.7	64,715	—
Unamortized debt issuance costs			(365)	3,131
Total debt and unamortized premiums (discount)			100,655	101,576
Less current portion of long-term debt			(3,530)	(2,890)
Total CHHD debt, excluding current portion			$ 97,125	98,686
Total notes and bonds payable			$ 986,836	1,005,956
Less current portion			(20,430)	(18,098)
Long-term debt, excluding current portion			$ 966,406	987,858

(Dollars in thousands)

Scheduled annual repayments, excluding costs, premiums, or discounts, for the next five years and thereafter are as follows at June 30:

Year ending June 30:		
2021	$	20,430
2022		22,675
2023		23,068
2024		23,003
2025		25,519
Thereafter		859,324
	$	974,019

Letters of Credit

Under its various credit agreements, UCMC is subject to certain financial covenants, including maintaining a minimum debt service coverage ratio; maintaining minimum levels of days' cash on hand; maintaining debt to capitalization at certain levels; limitations on selling, leasing, or otherwise, disposing of UCMC property; and certain other nonfinancial covenants.

Payment on each of the variable rate demand revenue bonds is also collateralized by a letter of credit. The letter of credit that supports the Series 2009D bonds expires in June 2022. The letter of credit that supports the 2009E bonds expires in July 2021. The letters of credit that support the Series 2010A and Series 2010B bonds expire in May 2021 and July 2021, respectively, and the letters of credit that support the Series 2011A and Series 2011B bonds expire in May 2021. Payment of each of the IEFA bonds is collateralized by a letter of credit maturing May 2022. The letters of credit are subject to certain restrictions, which include financial ratio requirements. The most restrictive financial ratio is to maintain a debt service coverage ratio of 1:35:1.

Included in UCMC's debt is $62,590 of commercial paper revenue notes and $325,000 of variable rate demand bonds. In the event that UCMC's remarketing agents are unable to remarket the bonds, the trustee of the bonds will tender them under the letters of credit. Scheduled repayments under the letters of credit are between zero and three years, beginning after a grace period of at least one year from the event, and bear interest rates different from those associated with the original bond issue. Any bonds tendered are still eligible to be remarketed. Bonds subsequently remarketed would be subject to the original bond repayment schedules.

(Dollars in thousands)

Scheduled principal repayments on long-term debt based on the variable rate demand debt being put back to the System and a corresponding draw being made on the underlying credit facility, if available, excluding costs, premiums, or discounts, are as follows:

Year ending June 30:		
2021	$	20,430
2022		191,057
2023		143,391
2024		121,889
2025		25,519
Thereafter		471,733
	$	974,019

Recent Financing Activity

In November 2019, the System issued fixed rate debt in the form of a private placement Note with New York Life Insurance Company. The debt attributable to UCMC totaled $63,645 and was used to advance refund UCMC's series 2012A bonds. The debt attributable to CHHD totaled $64,715 and was used to advance refund CHHD's series 2013A bonds.

Subsequent Financing Activity

In August 2020, UCMC issued fixed rate bonds in the amount of $47,270. The Series 2020A bonds were sold to JPMorgan Chase Bank. The purpose of the Series 2020A bonds was to provide for the redemption of UCMC's Series 2009B bonds in full on August 15, 2020.

Lines of Credit

As of June 30, 2020, UCMC has a $200,000 of available lines of credit from commercial banks. As of June 30, 2020 and 2019, no amount was outstanding under these lines. The lines of credit expire April 28, 2021 and September 21, 2021.

Interest Payments

The System paid interest, net of capitalized interest, of approximately $32,800 and $37,700 in 2020 and 2019, respectively.

UCMC Title Holding Corporation

During fiscal years 2017 and 2018, UCMC entered into New Market Tax Credit (NMTC) financing agreements with various entities for the purposes of financing various projects at UCMC that would benefit the surrounding community. The NMTC program was established in 2000 by the United States Congress and is administered by the Department of Treasury to encourage private investment in qualifying low-income communities. Pursuant to Section 45(D) of the Internal Revenue Code, UCMC's NMTC structure consists of an NMTC investor (Investor) who provided qualified equity investments to a community development entity (CDE) who in turn provided debt financing to a separate not for profit tax exempt entity, which is a qualified active low income community business (QALICB).

In August 2017, UCMC was a lender in the NMTC structure for the construction of a new emergency department and adult trauma center. Because UCMC has the power to appoint all board members of UCMC Title Holding Corporation II NFP, the QALICB has been consolidated in the financial statements. The Investor made qualifying equity investments into various CDE funds, including UCMC Trauma Center NMTC Investment Fund, LLC (the CDE Funds), which in turn provided debt financing of $20,880 to UCMC Title Holding Corporation to fund qualified construction costs and equipment, as required under the terms of the agreement. Management anticipates that the NMTC structure will stay in effect through July 2025 when the NMTC tax compliance period expires. At that time, management believes the Investor will exercise its Put Option in the Put and Call Agreement, allowing UCMC to acquire a 100% equity interest in the investment fund. If the Put Option is not exercised, UCMC has the right to call for the purchase of a 100% equity interest in the investment fund at a fair market value. In either case, once the option is exercised, UCMC’s loan to the investment fund would be extinguished, the investment fund and the CDE Funds would be dissolved, and the loans from the CDE Funds to UCMC Title Holding Corporation II NFP would be extinguished.

(11) Derivative Instruments

The System has interest rate related derivative instruments to manage its exposure on debt instruments. By using derivative financial instruments to manage the risk of changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not possess credit risk; however, the System is required to post collateral to the counterparty when certain thresholds as defined in the derivative agreements are met. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. System management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

The System is required to post collateral under the specific terms and conditions for the various interest rate swap agreements as described below. At June 30, 2020 and 2019, $55,100 and $13,750 was held as collateral, respectively, and was recorded in current portion of investments limited to use and included in Note 7 as funds in trust for disclosure. Collateral postings are primarily driven by the value of the swap as measured at the reset date. Collateral requirements increase if credit ratings were to be downgraded.

The fair value of each swap is the estimated amount UCMC would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value is included in interest rate swap liability on the consolidated balance sheets, while the change in fair value is recorded in other changes in net assets without donor restrictions for the effective portion of the change and in nonoperating gains and losses for the ineffective portion of the change

(Dollars in thousands)

UCMC Interest Rate Swap Agreement

In August 2006, UCMC entered into a forward starting swap transaction against contemplated variable rate borrowing for the Center for Care and Discovery. This is a cash flow hedge against interest on the variable rate debt. The fair value of these swap agreements is the estimated amount that UCMC would have to pay or receive to terminate the agreements as of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. The swap values are based on the London Interbank Rate (LIBOR). The inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

In July 2011, UCMC novated the original swap agreement to divide the original notional amount in two equal parts between financial institutions. The fair value of the terminated portion of the hedge on the date of the novation was recorded in net assets in the amount of $35,123 and is being amortized into interest expense over the life of the related debt (approximately $1,300 of amortization in 2020 and 2019), commencing on February 23, 2013, the date the Center for Care and Discovery was placed into service. The new agreement is being accounted for as a hedge. The combined notional amount of the swap is $325,000 with an effective start date of August 2011. Management has determined that the interest rate swaps are effective and have qualified for hedge accounting. The fair value of the UCMC swap agreement liabilities was $182,470 and $127,068 at June 30, 2020 and 2019, respectively, and has been included in other long-term liabilities in the accompanying consolidated balance sheets. The net effective portion of the change in fair value on the UCMC swap agreements of $(53,268) and $(29,233) in 2020 and 2019, respectively, has been included in the change in net assets without donor restrictions in the accompanying 2020 and 2019 consolidated statements of operations and changes in net assets without donor restriction. Management has recognized ineffectiveness of approximately $(395) in 2020 and an ineffectiveness of $1,190 in 2019 in nonoperating gains and losses. This movement reflects the spread between tax-exempt interest rates and LIBOR during the period. The effective portion of these swaps is included in other changes in unrestricted net assets. The interest rate swaps terminate on February 1, 2044. Cash settlement payments related to the swaps are recorded in interest expense.

On July 1, 2020 UCMC entered into a novation of the interest rate swap agreements for a five-year term. The novation to the new parties is under like-kind terms and arrangements that do not require de-designation of the heading relationship and related accounting.

The following summarizes the general terms of each of UCMC's swap agreements:

Effective date	Associated debt series	Original term	Current notional amount	UCMC pays	UCMC receives
August 9, 2011	2009 D/E, 2010 A/B, 2011 A/B	32.5 Years	$ 162,500,000	3.89 %	68% of LIBOR
August 9, 2011	2009 D/E, 2010 A/B, 2011 A/B	32.5 Years	162,500,000	3.97%	68% of LIBOR

(Dollars in thousands)

CHHD Swap Agreement

CHHD entered into an interest rate swap agreement on June 28, 2004 to lock in long-term fixed rates on the Series 2004 variable-rate debt issuance, with a notional amount of $38,225 and a maturity date of May 15, 2034. This agreement was amended on March 1, 2013. Under the amended agreement, the notional amount and maturity did not change, and CHHD receives, on a monthly basis, 67% of one-month LIBOR plus 47.5 basis points and makes payments on a monthly basis, an annualized fixed rate of 4.61%. The swap is not designated as a hedging instrument, and therefore, the change in fair value of the 2004 interest rate swap agreement of $(2,318) and $(2,003) in 2020 and 2019, respectively, was recognized as a component of nonoperating gains in the accompanying consolidated statement of operations and changes in net assets without donor restriction. The fair value of the Series 2004 interest rate swap agreement liability of $11,436 and $9,118 at June 30, 2020 and 2019, respectively, is included as a component of other long-term liabilities in the accompanying consolidated balance sheet. The differential to be paid or received under the Series 2004 interest rate swap agreement is recognized monthly and has been included as a component of interest expense in the accompanying consolidated statement of operations and changes in net assets without donor restriction.

A summary of outstanding positions under the interest rate swap agreements for CHHD at June 30, 2020 is as follows:

Series		Notional amount	Maturity date	Rate received	Rate paid
2004 Interest rate swap Agreement:	$	38,225	May 15, 2034	% of LIBOR	Fixed 4.61%

(12) Leases

ASC Topic 842, *Leases*, was adopted by the System effective July 1, 2019 using a modified retrospective transition approach, without adjustment to the prior period comparative financial information. ASC Topic 842 requires lessees to recognize leases on the consolidated balance sheet and disclose key information about leasing arrangements. The new standard establishes an ROU model that requires a lessee to recognize an ROU asset and lease liability on the consolidated balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of operations and changes in net assets without donor restriction. In adopting and applying the standard, the System has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases, or (3) the accounting for initial direct costs that were previously capitalized. The System did not elect the practical expedient to use hindsight for leases existing at the adoption date. As of July 1, 2019, the System recorded ROU assets – operating leases of $53,043 and a corresponding operating leasing liability of the same amount. ROU assets for operating leases are recorded in other assets, net and the corresponding liability is recorded between current portion of other long-term liabilities and other long-term liabilities, less current portion. ROU assets for financing leases are presented as property, plant, and equipment (net) on the consolidated balance sheet and the corresponding liability is presented between current portion of other long-term liabilities and other long-term liabilities, net of current portion consistent with prior classification prior to adoption of ASC Topic 842.

The System determines if an arrangement is or contains a lease at contract inception. The System recognizes an ROU asset and a lease liability at the lease commencement date if the lease period exceeds one year. Leases less than one year are expensed monthly as incurred.

For operating leases, the lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date; it is subsequently measured at the present value of the unpaid lease payments. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how the System determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

ASC Topic 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. ASC Paragraph 842-20-30-3 provides a practical expedient for nonpublic business entities, which allows a lessee to use a risk-free interest rate for a period comparable to the lease term. The System has elected to use the risk-free rate, which is the rate of a U.S. Treasury security for a period comparable to the lease term.

The lease term for all of the System's leases includes the non-cancellable period of the lease plus any additional periods covered by either an option to extend (or not to terminate) the lease that the System is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to the System or the System is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with the System's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as an operating expense within other expenses in the System's consolidated statements of operations and changes in net assets without donor restriction in the same line item as expense arising from fixed lease payments (operating leases).

The System monitors for events or changes in circumstances that require a reassessment of one of its leases.

The System has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The System recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other leases.

(Continued)

(Dollars in thousands)

The components of lease cost for the year ended June 30, 2020 reported as part of other expenses in the consolidated statements of operations and changes in net assets without donor restrictions, were as follows:

		2020
Operating lease expense	$	10,076
Finance lease expense:		
Amortization of right of use assets		4,970
Interest on lease liabilities		1,191
Total finance lease expense		6,161
Total lease expense	$	16,237

Amounts reported in the consolidated balance sheet as of June 30, 2020 were as follows:

Operating leases:		
Right of use assets – operating leases	$	53,043
Accumulated amortization		3,038
Other assets, net		50,005
Current portion of other long-term liabilities		4,596
Other long-term liabilities, less current portion		45,409
Total operating lease liabilities	$	50,005
Finance leases:		
Right of use assets – finance leases	$	38,347
Accumulated amortization		4,970
Property, plant, and equipment, net	$	33,377
Current portion of other long-term liabilities		7,521
Other long-term liabilities		29,466
Total finance lease liabilities	$	36,987

(Dollars in thousands)

Other information related to leases as of June 30, 2020 was as follows:

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	$ 8,383
Financing cash flow from finance leases	2,466
ROU assets obtained in exchange for lease obligations:	
Operating leases	53,043
Finance leases	27,681
Reductions to ROU assets resulting from reductions to lease obligations:	
Operating leases	3,038
Finance leases	4,970
Weighted average remaining lease term:	
Operating leases	9.1 years
Finance leases	11.2 years
Weighted-average discount rate:	
Operating leases	2.1%
Finance leases	3.3%

Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of lease liabilities under noncancelable leases as of June 30, 2020 are as follows:

	Operating	Finance
2021	$ 5,497	8,703
2022	5,414	3,666
2023	5,400	3,393
2024	4,793	2,987
2025 and thereafter	36,466	29,077
	$ 57,570	47,826
Less amount representing interest	7,565	10,839
Present value of net minimum lease payments	$ 50,005	36,987

(Dollars in thousands)

Lease Information as of and for the year ended June 30, 2019:

The System leases office space and equipment under leases that are classified as operating leases. Prior to the adoption of ASC Topic 842, future minimum lease payments required under operating lease as of June 30, 2019 that have initial or remaining lease terms in excess of one year:

	Operating	Capital
2020	$ 6,184	1,987
2021	6,569	1,547
2022	6,393	1,468
2023	6,171	1,319
2024 and thereafter	33,583	13,573
	$ 58,900	19,894
Less amount representing interest		7,984
Present value of net minimum capital lease payments		$ 11,910

(13) Insurance

Professional and General Liability

The System maintains separate self-insurance programs for UCMC and CHHD. UCMC is included under certain of the University's insurance programs. Since 1977, UCMC, in conjunction with the University, has maintained a self-insurance program for its medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which for the years ended June 30, 2020 and 2019 was $5,000 per claim and unlimited in the aggregate. Claims in excess of $5,000 are subject to an additional self-insurance retention limited to $12,500 per claim and $22,500 in aggregate. There are no assurances that the University will be able to renew existing policies or procure coverage on similar terms in the future.

CHHD maintains a self-insurance program for professional and general liability. Coverage from commercial insurance carriers is maintained for claims in excess of self-insured retentions at various levels by policy year. CHHD established a trust fund with an independent trustee for the administration of assets funded under the malpractice and general liability self-insurance program.

The System has engaged professional consultants for calculating an estimated liability for medical malpractice self-insurance and is actuarially determined based upon estimated claim reserves and various assumptions, and represents the estimated present value of self-insurance claims that will be settled in the future. It considers anticipated payout patterns, as well as interest to be earned on available assets prior to payment. The discount rate used to value the self-insurance liability is a rate commensurate with the duration of anticipated payments.

(Dollars in thousands)

A comparison of the estimated liability for incurred malpractice claims (filed and not filed) and assets available for claims for the combined University and UCMC self-insurance program as of June 30, 2020 and 2019 is presented below:

		2020	2019
Actuarial present value of self-insurance liability for medical malpractice	$	185,822	192,018
Total assets available for claims		259,113	260,084

If the present-value method were not used, the ultimate liability for medical malpractice self-insurance claims would be approximately $20,347 higher at June 30, 2020. The interest rate assumed in determining the present value was 2.5% and 3.5% for 2020 and 2019, respectively. UCMC has recorded its pro rata share of the malpractice self-insurance liability in the amount of $83,620 and $86,408 at June 30, 2020 and June 30, 2019, respectively, with an offsetting receivable from the malpractice trust to cover any related claims. The malpractice self-insurance trust assets consist primarily of funds held in TRIP.

UCMC recognizes as malpractice expense its negotiated pro rata share of the actuarially determined normal contribution, with gains and losses amortized over five years, with no retroactive adjustments, as provided in the operating agreement. For fiscal year 2021, UCMC's expense is estimated to be approximately $10,000 related to malpractice insurance.

On April 30, 2019, CHHD entered into a loss portfolio transfer for the Ingalls Memorial Hospital medical malpractice program by obtaining an occurrence-based policy for claims through June 30, 2018 through a payment of $47,311 to an unrelated insurance company. The loss portfolio transferred was structured through Ingalls Casualty Insurance (the Captive) entity for purposes of additional insurance protection and risk management. At June 30, 2020, there was no additional liability calculated by the programs actuaries that would require additional reserves by CHHD or the Captive. Accruals for CHHD professional and general liabilities are recorded on a discounted basis consistent with the University's insurance program.

(14) Pension Plans

Active Plans

A majority of UCMC's personnel participate in the University's defined benefit and contribution pension plans, which are considered multi-employer pension plans. Under the defined benefit portion of this plan, benefits are based on years of service and the employee's compensation for the five highest paid consecutive years within the last ten years of employment. UCMC and the University make annual contributions to this portion of the plan at a rate necessary to maintain plan funding based on the guidelines set forth by the Employee Retirement Income Security Act of 1974, on an actuarially determined basis. UCMC recognizes its share of net periodic pension cost as expense and any difference in the contribution amount as a transfer of unrestricted net assets. The adjustment to net assets without donor restrictions was $(2,823) and $(14,787) for the years ended June 30, 2020 and 2019. UCMC expects to make contributions not to exceed $2,200 for the fiscal year ending June 30, 2021.

(Dollars in thousands)

Effective January 1, 2017, the 401(a) defined benefit pension plan was frozen for UCMC employees participating in the plan and was replaced with an enhanced defined contribution plan. Under the defined contribution portion of the plan, UCMC and plan participants make contributions that accrue to the benefit of the participants at retirement. UCMC's contributions, which are based on a percentage of each covered employee's salary, totaled approximately $24,900 and $23,800 for the years ended June 30, 2020 and 2019, respectively.

UCMC's expense related the multiemployer University's defined benefit plans included in the University's consolidated financial statements for the years ended June 30, 2020 and 2019 is as follows:

		Contribution of UCMC	
Plan name	**EIN**	**2020**	**2019**
University of Chicago Retirement Income Plan for Employees	36-2177139-002	$ —	—
University of Chicago Pension Plan for Staff Employees	36-2177139-003	—	—
		$ —	—

The benefit obligation, fair value of plan assets, and funded status for the University's defined benefit plan included in the University's consolidated financial statements as of June 30 are shown below.

	2020	2019
Projected benefit obligation	$ 1,057,892	946,250
Fair value of plan assets	786,782	763,789
Deficit of plan assets over benefit obligation	$ (271,110)	(182,461)

The weighted average assumptions used in the accounting for the plan are shown below.

	2020	2019
Discount rate	2.9 %	3.6 %
Expected return on plan assets	6.3	6.3
Rate of compensation increase	3.5	3.5

(Dollars in thousands)

The weighted average asset allocation for the plan is as follows:

	2020	2019
Domestic equities	26 %	23 %
International equity	24	27
Fixed income	50	50
	100 %	100 %

Domestic and international equities are presented as level 1 investments and fixed income securities are presented as Level 2 investments within the fair value hierarchy.

The pension and other postretirement benefit obligation considers anticipated payout patterns as well as investment returns on available assets prior to payment. The discount rate used to value the pension and other postretirement benefit obligation is a risk-adjusted rate commensurate with the duration of anticipated payments. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

Expected future benefit payments excluding plan expenses are as follows:

Fiscal year:		
2021	$	71,791
2022		56,657
2023		54,279
2024		52,983
2025		52,881
2026–2030		274,079

UCMC and CHHD also maintain additional defined contribution retirement plans for employees. The System's pension expense under these distinct defined contribution retirement plans for UCMC was $8,000 and $7,600 for the years ended June 30, 2020 and 2019, respectively.

CHHD expense under these distinct defined contribution retirement plans was $2,900 and $2,800 for the years ended June 30, 2020 and 2019, respectively.

Curtailed and Frozen Plan

In June 2002, UCMC assumed sponsorship of the Louis A. Weiss Memorial Hospital Pension Plan (Employer Identification Number 36-3488183, Plan Number 003), which covers employees of a former affiliate. Participation and benefit accruals are frozen. All benefit accruals are fully vested.

(Dollars in thousands)

Components of net periodic pension cost and other amounts recognized in net assets without donor restrictions include the following:

	Years ended June 30	
	2020	2019
Net periodic pension cost:		
Service cost	$ —	—
Net periodic pension cost	$ —	—
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Interest cost	$ 1,730	1,892
Expected return on plan assets	(2,598)	(2,677)
Amortization of unrecognized net actuarial loss	1,279	949
Total recognized in net periodic pension cost and net assets without donor restrictions	$ 411	164

The following table sets forth additional required pension disclosure information for this plan:

	Years ended June 30	
	2020	2019
Changes in projected benefit obligation:		
Benefit obligation at beginning of year	$ 51,246	46,955
Interest cost	1,730	1,892
Net actuarial loss	4,929	6,042
Benefits paid	(3,494)	(3,643)
	54,411	51,246
Changes in plan assets:		
Fair value of plan assets at beginning of year	45,121	45,017
Actual return on plan assets	3,837	2,247
Employer contribution	3,000	1,500
Benefits paid	(3,494)	(3,643)
	48,464	45,121
Funded status at end of year	$ (5,947)	(6,125)

(Dollars in thousands)

Amounts recognized in the consolidated balance sheets are included in other noncurrent liabilities.

Accumulated plan benefits equal projected plan benefits. Assumptions used in the accounting for the net periodic pension cost were as follows:

	2020	2019
Discount rate	2.6 %	3.5 %
Expected return on plan assets	6.0	6.0
Rate of compensation increase	N/A	N/A

Weighted average asset allocations for plan assets are as follows:

	2020	2019
Cash	— %	2 %
Fixed income	90	66
Domestic equities	—	21
International equities	10	11
	100 %	100 %

All plan assets are valued using Level 1 inputs in 2020 and 2019. The target asset allocation is 60% equities and 40% fixed income. The expected return on plan assets is based on historical investment returns for similar investment portfolios.

UCMC expects to make contributions of $5,800 to the plan in the fiscal year ended June 30, 2021.

Expected future benefit payments are as follows:

Fiscal year:		
2021	$	3,673
2022		3,789
2023		3,705
2024		3,621
2025		3,523
2026–2030		15,914

(Dollars in thousands)

(15) Functional Expenses

Total operating expenses by function are as follows for the years ended June 30:

	2020			
	Healthcare services	Admin	Fund raising	Total
Salaries, wages, and benefits	$ 970,553	92,033	2,079	1,064,665
Supplies and other	776,521	82,437	1,152	860,110
Physician services	290,999	10,454	—	301,453
Insurance	29,841	214	—	30,055
Interest	39,490	2,767	—	42,257
Medicaid provider tax	66,640	—	—	66,640
Depreciation and amortization	130,744	865	—	131,609
Total	$ 2,304,788	188,770	3,231	2,496,789

	2019			
	Healthcare services	Admin	Fund raising	Total
Salaries, wages, and benefits	$ 887,053	103,448	1,897	992,398
Supplies and other	675,896	89,515	1,631	767,042
Physician services	271,828	11,314	—	283,142
Insurance	25,682	3,300	—	28,982
Interest	38,079	6,377	—	44,456
Medicaid provider tax	66,640	—	—	66,640
Depreciation and amortization	112,468	15,730	—	128,198
Total	$ 2,077,646	229,684	3,528	2,310,858

(16) Contingencies

(a) Litigation

The System is subject to various legal proceedings and claims that are incidental to its normal business activities. In the opinion of the System, the amount of ultimate liability with respect to these actions will not materially affect the consolidated operations or net assets of the System.

(b) Regulatory Investigation and Other

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The System is subject to these regulatory efforts. Additionally, the laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for the System and other healthcare organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. The System maintains a system wide compliance program and conducts audits and other activities to identify potential compliance issues, including overpayments by governmental payors. Compliance reviews may result in liabilities to government healthcare program, which could have an adverse impact on the System's net patient service revenue

(c) Tax Exemption for Sales Tax and Property Tax

Effective June 14, 2012, the governor of Illinois signed into law, Public Act 97-0688, which created new standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. The System certified in 2020 and 2019 and has not recorded a liability for related property taxes based upon management's current determination of qualified services provided.

Schedule 1

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidating Balance Sheet Information

June 30, 2020

(Dollars in thousands)

Assets	The University of Chicago Medical Center	Ingalls Heath System	Ingalls Memorial Hospital	Ingalls Development Foundation	Ingalls Home Care	Eliminations	Obligated Group Consolidation	Other Non-Obligated Group UCMC Entities	Other Non-Obligated Group CHHD Entities	Eliminations	Consolidated total
Current assets:											
Cash and cash equivalents	$ 458,899	68,219	113	756	—	—	527,987	6,552	4,186	—	538,725
Patient accounts receivable	297,124	—	32,002	—	3,480	—	332,606	953	117	—	333,676
Current portion of investments limited to use	53,305	2,876	—	—	—	—	56,181	—	2,319	—	58,500
Current portion of malpractice self-insurance receivable	14,508	—	—	—	—	—	14,508	—	—	—	14,508
Current portion of pledges receivable	1,177	—	—	—	—	—	1,177	—	—	—	1,177
Due from affiliates	61,630	1,551	118,877	—	11,782	(35,712)	158,128	1,947	2,449	(162,524)	—
Prepaids, inventory, and other current assets	116,933	1,561	12,547	285	117	—	131,443	3,528	43,173	(1,146)	176,998
Total current assets	1,003,576	74,207	163,539	1,041	15,379	(35,712)	1,222,030	12,980	52,244	(163,670)	1,123,584
Investments, limited as to use, less current portion	997,741	7,663	140,840	61,396	15,878	(3,711)	1,219,807	—	7,817	—	1,227,624
Property, plant, and equipment, net	1,338,180	7,094	188,711	—	18	—	1,534,003	18,567	5,778	—	1,558,348
Pledges receivable, less current portion	1,521	—	—	—	—	—	1,521	—	—	—	1,521
Malpractice self-insurance receivable, less current portion	81,091	—	—	—	—	—	81,091	—	—	—	81,091
Other assets, net	407,118	(5,263)	88	—	1	(327,069)	74,875	59,651	2,540	(28,402)	108,664
Total assets	$ 3,829,227	83,701	493,178	62,437	31,276	(366,492)	4,133,327	91,198	68,379	(192,072)	4,100,832
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued expenses	$ 196,740	(8,302)	51,281	823	2,214	—	242,756	3,966	17,776	(8,129)	256,369
Current portion of long-term debt	16,625	—	3,530	—	—	—	20,155	275	—	—	20,430
Current portion of other long-term liabilities	11,374	—	—	—	—	—	11,374	1,538	—	(1,146)	11,766
Estimated third-party payor settlements and Medicare Advance	450,409	—	80,155		3,152	—	533,716	—	3,131	—	536,847
Current portion of malpractice self-insurance liability	14,508	7,019	—	—	—	—	21,527	—	2,914	—	24,441
Due to affiliates	—	91,474	1,564	61	512	(35,713)	57,898	55,448	41,048	(154,394)	—
Due to the University of Chicago	37,649	—	—	—	—	—	37,649	—	—	—	37,649
Total current liabilities	727,305	90,191	136,530	884	5,878	(35,713)	925,075	61,227	64,869	(163,669)	887,502
Workers' compensation self-insurance liability, less current portion	7,600	1,841	—	—	—	—	9,441	—	—	—	9,441
Malpractice self insurance liability, less current portion	81,091	2,995	—	—	—	—	84,086	—	50,943	—	135,029
Long-term debt, excluding current installments	827,380	—	97,125	—	—	—	924,505	41,901	—	—	966,406
Interest rate swap liability	182,471	—	11,436	—	—	—	193,907	—	—	—	193,907
Other long-term liabilities, less current portion	116,081	2,839	10,124	—	117	(2,357)	126,804	24,609	42	(38,686)	112,769
Total liabilities	1,941,928	97,866	255,215	884	5,995	(38,070)	2,263,818	127,737	115,854	(202,355)	2,305,054
Net assets (deficit):											
Without donor restrictions	1,775,283	(14,165)	234,257	48,762	25,276	(311,589)	1,757,824	(36,539)	(47,475)	10,283	1,684,093
With donor restrictions	112,016	—	3,706	12,791	5	(16,833)	111,685	—	—	—	111,685
Total net assets (deficit)	1,887,299	(14,165)	237,963	61,553	25,281	(328,422)	1,869,509	(36,539)	(47,475)	10,283	1,795,778
Total liabilities and net assets	$ 3,829,227	83,701	493,178	62,437	31,276	(366,492)	4,133,327	91,198	68,379	(192,072)	4,100,832

See accompanying independent auditors' report.

Schedule 2

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions

Year ended June 30, 2020

(Dollars in thousands)

	The University of Chicago Medical Center	Ingalls Heath System	Ingalls Memorial Hospital	Ingalls Development Foundation	Ingalls Home Care	Eliminations	Obligated Group Consolidation	Other Non-Obligated Group UCMC Entities	Other Non-Obligated Group CHHD Entities	Eliminations	Consolidated total
Revenue:											
Patient service revenue	$ 1,742,319	—	271,749	—	11,257	—	2,025,325	4,405	22,423	(2,196)	2,049,957
Other operating revenue and net assets released from restrictions	444,299	13,120	32,244	2,229	465	(12,912)	479,445	6,953	25,802	(14,453)	497,747
Total operating revenues	2,186,618	13,120	303,993	2,229	11,722	(12,912)	2,504,770	11,358	48,225	(16,649)	2,547,704
Operating expenses:							—				
Salaries, wages, and benefits	875,049	2,577	134,432	121	8,919	—	1,021,098	12,909	32,117	(1,459)	1,064,665
Supplies and other	723,730	2,882	119,565	2,439	1,585	(1,501)	848,700	2,255	12,137	(2,982)	860,110
Physician services	272,690	810	24,786	20	242	(4,632)	293,916	409	15,775	(8,647)	301,453
Insurance	13,311	6,849	10,226	—	212	(6,777)	23,821	1,190	6,813	(1,769)	30,055
Interest	38,636	—	4,461	—	—	—	43,097	952	—	(1,792)	42,257
Medicaid provider tax	49,518	—	17,122	—	—	—	66,640	—	—	—	66,640
Depreciation and amortization	113,675	535	15,633	—	10	—	129,853	934	822	—	131,609
Total operating expenses	2,086,609	13,653	326,225	2,580	10,968	(12,910)	2,427,125	18,649	67,664	(16,649)	2,496,789
Operating revenue in excess (deficit) of expenses	100,009	(533)	(22,232)	(351)	754	(2)	77,645	(7,291)	(19,439)	—	50,915
Nonoperating gains (losses), net:							—				
Investment income, net	23,783	254	4,499	1,923	589	—	31,048	—	(15)	—	31,033
Change in fair value of nonhedged derivative instruments	—	—	(2,318)	—	—		(2,318)	—	—	—	(2,318)
Derivative ineffectiveness on hedged derivative instruments	(395)	—	—	—	—		(395)	—	—	—	(395)
Other, net	(1,285)	(4,219)	(2,102)	(208)	(63)	—	(7,877)	—	(482)	4,682	(3,677)
Net nonoperating gains (losses)	22,103	(3,965)	79	1,715	526	—	20,458	—	(497)	4,682	24,643
Revenue and gains in excess (deficient) of expenses and losses	122,112	(4,498)	(22,153)	1,364	1,280	(2)	98,103	(7,291)	(19,936)	4,682	75,558
Other changes in net assets without donor restriction:							—				
Net asset transfers to University of Chicago, net	(71,750)	—	—	—	—	—	(71,750)	—	—	—	(71,750)
Change in accrued pension benefits other than net periodic benefit costs	(2,823)	—	—	—	—	—	(2,823)	—	—	—	(2,823)
Effective portion of change in valuation of derivatives	(53,268)	—	—	—	—	—	(53,268)	—	—	—	(53,268)
Net assets released from restriction for capital purposes	3	—	—	—	—	—	3	—	2	—	5
Distributions and other, net	—	(1)	1	—	—	3	3	—	(13)	(1)	(11)
Increase (decrease) in net assets without donor restrictions	$ (5,726)	(4,499)	(22,152)	1,364	1,280	1	(29,732)	(7,291)	(19,947)	4,681	(52,289)

See accompanying independent auditors' report.

Schedule 3

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2020

(Dollars in thousands)

	The University of Chicago Medical Center	Ingalls Heath System	Ingalls Memorial Hospital	Ingalls Development Foundation	Ingalls Home Care	Eliminations	Obligated Group Consolidation	Other Non-Obligated Group UCMC Entities	Other Non-Obligated Group CHHD Entities	Eliminations	Consolidated total
Net assets without donor restrictions:											
Revenue and gains in excess (deficient) of expenses and losses	$ 122,112	(4,498)	(22,153)	1,364	1,280	(2)	98,103	(7,291)	(19,936)	4,682	75,558
Net asset transfers to University of Chicago, net	(71,750)	—	—	—	—	—	(71,750)	—	—	—	(71,750)
Change in accrued pension benefits other than net periodic benefit cost	(2,823)	—	—	—	—	—	(2,823)	—	—	—	(2,823)
Effective portion of change in valuation of derivatives	(53,268)	—	—	—	—	—	(53,268)	—	—	—	(53,268)
Net assets released from restriction for capital purposes	3	—	—	—	—	—	3	—	2	—	5
Distributions and other, net	—	(1)	1	—	—	3	3	—	(13)	(1)	(11)
Increase (decrease) in net assets without donor restrictions	(5,726)	(4,499)	(22,152)	1,364	1,280	1	(29,732)	(7,291)	(19,947)	4,681	(52,289)
Net assets with donor restrictions:											
Contributions	4,881	—	—	790	—	—	5,671	—	—	—	5,671
Change in net interest in Foundation	—	—	(355)	—	—	356	1	—	1		2
Net assets released from restrictions used for operating purposes	(7,405)	—	—	(1,146)	—	—	(8,551)	—	—	—	(8,551)
Net assets released from restrictions used for capital purposes	(3)	—	—	—	—	(2)	(5)	—	—	—	(5)
Investment income	1,695	—		(218)	—	—	1,477	—	—	—	1,477
Increase (decrease) in net assets with donor restrictions	(832)	—	(355)	(574)	—	354	(1,407)	—	1	—	(1,406)
Change in net assets	(6,558)	(4,499)	(22,507)	790	1,280	355	(31,139)	(7,291)	(19,946)	4,681	(53,695)
Net assets (deficit) at beginning of year	1,893,857	(9,666)	260,470	60,763	24,001	(328,777)	1,900,648	(29,248)	(27,529)	5,602	1,849,473
Net assets (deficit) at end of year	$ 1,887,299	(14,165)	237,963	61,553	25,281	(328,422)	1,869,509	(36,539)	(47,475)	10,283	1,795,778

See accompanying independent auditors' report.