THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
The University of Chicago Medical Center:

Opinion

We have audited the consolidated financial statements of The University of Chicago Medical Center (the System), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2022 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 GAAS. 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 1, 2022

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	60,997	184,639
Patient accounts receivable		471,321	437,141
Current portion of investments limited to use		67,796	247,395
Current portion of malpractice self-insurance receivable		21,904	16,809
Current portion of pledges receivable		3,543	2,289
Prepaids, inventory, and other current assets		203,353	195,394
Total current assets		828,914	1,083,667
Investments limited to use, less current portion		1,604,017	1,722,327
Property, plant, and equipment, net		1,531,898	1,509,150
Pledges receivable, less current portion		4,604	5,708
Malpractice self-insurance receivable, less current portion		96,919	90,598
Other assets, net		113,005	122,867
Total assets	$	4,179,357	4,534,317
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	289,214	282,219
Current portion of long-term debt		22,313	22,875
Current portion of other long-term liabilities		10,664	4,775
Estimated third-party payor settlements and Medicare Advance		275,805	454,530
Current portion of malpractice self-insurance liability		21,904	16,809
Due to University of Chicago		33,645	29,809
Total current liabilities		653,545	811,017
Other liabilities:			
Workers’ compensation self-insurance liabilities, less current portion		8,124	8,604
Malpractice self-insurance liability, less current portion		178,013	168,640
Long-term debt, less current portion		903,182	937,757
Interest rate swap liability		83,440	147,362
Other long-term liabilities, less current portion		128,393	145,633
Total liabilities		1,954,697	2,219,013
Net assets:			
Without donor restrictions		2,088,996	2,169,780
With donor restrictions		135,664	145,524
Total net assets		2,224,660	2,315,304
Total liabilities and net assets	$	4,179,357	4,534,317

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, 2022 and 2021

(In thousands)

		2022	2021
Operating revenues:			
Patient service revenue	$	2,548,487	2,331,509
Other operating revenues and net assets released from restrictions used for operating purposes		436,961	457,645
Total operating revenues		2,985,448	2,789,154
Operating expenses:			
Salaries, wages, and benefits		1,294,763	1,134,205
Supplies and other		1,030,114	944,587
Physician services		316,946	303,435
Insurance		21,413	39,603
Interest		36,904	39,743
Medicaid provider tax		69,756	75,683
Depreciation and amortization		133,271	132,707
Total operating expenses		2,903,167	2,669,963
Operating revenue in excess of expenses		82,281	119,191
Nonoperating gains and losses:			
Investment return, net		(154,282)	387,316
Change in fair value of nonhedged derivative instruments		4,229	2,637
Derivative ineffectiveness on hedged derivative instruments		(1,427)	695
Other, net		(2,760)	(251)
Revenue and gains in excess (deficient) of expenses and losses		(71,959)	509,588
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		4	2,781
Effective portion of change in valuation of derivatives		62,885	44,967
Net assets released from restriction for capital purposes		36	125
Distributions and other, net		—	(24)
Increase (decrease) in net assets without donor restrictions	$	(80,784)	485,687

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Net assets without donor restrictions:			
Revenue and gains in excess (deficient) of expenses and losses	$	(71,959)	509,588
Net asset transfers to University of Chicago, net		(71,750)	(71,750)
Change in accrued pension benefits other than net periodic benefit cost		4	2,781
Effective portion of change in valuation of derivatives		62,885	44,967
Net assets released from restrictions for capital purposes		36	125
Distributions and other, net		—	(24)
Increase (decrease) in net assets without donor restrictions		(80,784)	485,687
Net assets with donor restrictions:			
Contributions		10,944	12,513
Net assets released from restrictions used for operating purposes		(9,456)	(8,358)
Investment return, net		(11,312)	29,809
Net assets released from restrictions for capital purposes		(36)	(125)
Increase (decrease) in temporarily restricted net assets		(9,860)	33,839
Change in net assets		(90,644)	519,526
Net assets at beginning of year		2,315,304	1,795,778
Net assets at end of year	$	2,224,660	2,315,304

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Change in net assets	$	(90,644)	519,526
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net change in unrealized gains and losses on investments		232,738	(312,323)
Net asset transfers to University of Chicago		71,750	71,750
Restricted contributions and investment return		368	(42,322)
Realized gains on investments		(61,140)	(63,889)
Net change in valuation of derivatives		(63,922)	(46,545)
Change in accrued pension benefits other than net period benefit cost and other		(4)	(2,781)
Loss on refinancing of long-term debt		(7,764)	(832)
Loss on disposal of assets		393	235
Net assets released from restrictions for operations		9,456	8,358
Payment of lease obligations		(4,795)	(10,814)
Depreciation and amortization		133,271	132,707
Changes in assets and liabilities:			
Patient accounts receivable		(34,180)	(103,465)
Other assets, net		(4,868)	(38,892)
Accounts payable and accrued expenses		12,553	21,828
Due to University of Chicago		3,836	(7,840)
Estimated settlements with third-party payors and Medicare Advance		(178,725)	(82,317)
Self-insurance liabilities		13,988	25,142
Other liabilities		(3,735)	36,767
Net cash provided by operating activities		28,576	104,293
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(156,412)	(83,744)
Change in construction payables		(5,558)	4,022
Purchases of investments		(274,809)	(944,485)
Sales of investments		389,808	637,099
Net cash used in investing activities		(46,971)	(387,108)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, including bond premium		—	47,270
Additional repayment of long-term debt		(27,373)	(72,642)
Payments of finance/long-term lease obligation		(7,612)	(8,113)
Net asset transfers to University of Chicago, net		(71,750)	(71,750)
Net assets released from restriction for operations		(9,456)	(8,358)
Proceeds from restricted contributions		10,944	42,322
Net cash used in financing activities		(105,247)	(71,271)
Net (decrease) increase in cash and cash equivalents		(123,642)	(354,086)
Cash and cash equivalents:			
Beginning of year		184,639	538,725
End of year	$	60,997	184,639
Noncash transactions:			
Other assets included for right-of-use assets – operating leases as a result of adopting ASU No. 842, Leases	$	60,050	60,148

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 healthcare organization, collaborating 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. Included within UCMC are the following entities; 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.

UCMC's Obligated Group includes the following entities: UCMC (excluding 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, Trulen Insurance SPC Limited, and Ingalls Same Day Surgery. These are presented in the supplemental schedules as "Other Non-Obligated Group Entities" for purposes of consolidation.

The University of Chicago (the University), as the sole corporate member of UCMC, elects UCMC's Board of Trustees (the Board) 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) COVID-19 Pandemic

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. Various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic.

During fiscal year 2022 and 2021, the System received approximately $4,740 and $11,136, respectively, in general and targeted Provider Relief Fund (PRF) distributions, as provided for under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Generally, these distributions from the PRF 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 PRF and the impact of the pandemic on operating results through June 30, 2022, the System recognized through June 30, 2022 and 2021, $5,386 and $61,802, respectively. The unrecognized amount of general distributions and targeted distributions are recorded as estimated third-party payor settlements and Medicare Advance in the consolidated balance sheets as of June 30, 2022 and 2021 of $311 and $949, respectively. The System will continue to monitor compliance with the PRF 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). 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 for the advance payments for acute care hospitals. As of June 30, 2022 and 2021, the System has recorded the APP payments as estimated third-party payor settlements and Medicare advance on the consolidated balance sheets of $36,248 and $183,259. 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 April 2021.

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 sheets at June 30, 2022 and 2021 for $18,645 and $36,800, respectively.

(c) 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.

(d) 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, 2022 and 2021, are reported in note 6.

(e) 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.

(f) 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 consolidated statements of cash flows.

(g) Inventory and Supplies

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

(Continued)

(h) Investments

Investments are classified as trading securities. As such, investment return (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, 2022 and 2021, 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, 2022 and 2021 is included in note 7.

(i) 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 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.

(j) 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 sheets 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 sheets.

(k) 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 2022 or 2021.

(l) Leases

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 sheets and the corresponding liability is presented between current portion of other long-term liabilities and other long-term liabilities, net of current portion.

The System determines if an arrangement is or contains a lease at contract inception.

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. 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 ROU asset is initially measured at cost, which primarily comprises the initial amount of the lease liability. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is 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.

The System monitors for events or changes in circumstances that require a reassessment of one of its leases. Leases having an initial term of 1 year or less are expensed as incurred.

(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 postretirement 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.

(In thousands)

The description of amounts classified as donor restricted net assets (endowments only) as of June 30, 2022 and 2021 is as follows:

	Perpetual	Time restricted by law	2022 Total
Restricted for pediatric healthcare	$ 3,506	18,719	22,225
Restricted for adult healthcare	3,482	60,036	63,518
Restricted for educational and scientific programs	13,311	3,373	16,684
	$ 20,299	82,128	102,427

	Perpetual	Time restricted by law	2021 Total
Restricted for pediatric healthcare	$ 4,440	21,770	26,210
Restricted for adult healthcare	4,438	69,466	73,904
Restricted for educational and scientific programs	10,052	4,524	14,576
	$ 18,930	95,760	114,690

The endowment component of net assets without donor restrictions comprises of amounts designated by the Board to function as endowment, which amounted to $1,242,517 and $1,339,160 included within investments limited to use as of June 30, 2022 and 2021, respectively.

In addition to endowments, the System has $33,237 and $30,834, respectively, of other restricted net assets at June 30, 2022 and 2021.

(n) Consolidated Statements 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 statements of operations and changes in net assets without donor restrictions includes revenue and gains in excess (deficient) of expenses and losses. Changes in net assets without donor restrictions that are excluded from revenue and gains in excess (deficient) 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 payor 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 payors, 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 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 records accruals to reflect the expected final settlements on our cost reports.

Settlements with third-party payors 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 payor, 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 $16,997 and $4,035, for the years ended June 30, 2022 and 2021, respectively.

(p) Hospital Assessment Program/Medicaid Provider Tax

The Illinois Hospital Assessment Program and the Enhanced Illinois Hospital (collectively referred to herein as HAP) have been approved by CMS through December 31, 2022. Under HAP, the state receives additional federal Medicaid funds for the state's healthcare system administered by the Illinois Department of Healthcare and Family Services. In 2022, reimbursement under the HAP resulted in a net increase of $123,000 in operating income, which includes $192,755 in Medicaid payments included in patient service revenue offset by $69,755 in Medicaid provider tax expense. In 2021, reimbursement under the HAP resulted in a net increase of $83,757 in operating income, which includes $159,439 in Medicaid payments included in patient service revenue offset by $75,682 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, 2022 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 nongrant 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, 2022 and 2021, the System does not have an asset or liability recorded for unrecognized tax positions.

UCMC and CHHD Obligated Groups comprise 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. The taxable entities include University of Chicago Medicine Care Network, LLC; Trulen Insurance SPC Limited; 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, 2022 and 2021, the UCMC and CHHD Non-Obligated groups have deferred tax assets primarily relating to net operating losses (NOL) of $19,234 and $17,763, 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) Subsequent Events

On September 13, 2022, UCMC and AdventHealth entered into a definitive agreement to enter into an affiliation under which UCMC will acquire a controlling interest in AdventHealth's Greta Lakes Region – which includes its four Illinois hospitals in Bolingbrook, Glendale Heights, Hinsdale and LaGrange, Illinois along with ambulatory and related assets and an associated medical group (Advent Midwest Health) – with AdventHealth retaining the remaining interest and continuing to manage daily operations

(Continued)

(In thousands)

of the facilities with shared governance and certain reserve powers for UCMC. UCMC and AdventHealth will each retain their current system-level governance and administrative structures, and UCMC anticipates consolidating the financials of Advent Midwest Health into UCMC financial reporting. The affiliation is expected to close in early 2023, subject to regulatory approvals.

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 1, 2022, the date the consolidated financial statements were issued.

(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:

		2022	2021
Financial assets:			
Cash and cash equivalents and Investments Limited to Use	$	128,793	425,799
Patient accounts receivable		471,321	437,141
Total financial assets available within one year		600,114	862,940
Liquidity resources:			
Bank lines of credit		100,000	100,000
Total financial assets and liquidity resources available within one year	$	700,114	962,940

Included in cash and cash equivalents as presented above, as of June 30, 2022, the System has $67,677 of cash held in current portion of investment, limited to use. In addition, $1,242,517 is held in funds functioning as endowment and $212,761 of CHHD investments, all available for general expenditure upon Board approval, of which $752,482 is liquid within 12 months. As of June 30, 2021, the System had $241,160 of cash held in current portion of investment, limited to use. In addition, $1,339,160 in funds functioning as endowment and $248,687 of CHHD investments, all available for general expenditure upon Board approval, of which $880,953 is 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, 2022 and 2021, the University charged UCMC $38,661 and $34,857, respectively, for utilities, security, telecommunications, insurance, and overhead.

The University's Division of Biological Sciences provides physician services to UCMC. In 2022 and 2021, UCMC recorded $283,001 and $271,561, respectively, in expense related to these services.

UCMC's Board 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 and do not represent legally binding commitments until that approval. Unpaid portions of commitments approved by the UCMC Board are reflected as current liabilities. UCMC recorded net asset transfers of $71,750 in both 2022 and 2021 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, 2017 have been audited by the Medicare fiscal intermediary. CHHD's Medicare reimbursement reports through June 30, 2018 have been audited by the Medicare fiscal intermediary.

(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 2021 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:

		2022	2021
Medicare	$	723,757	675,959
Medicaid		650,874	580,336
Managed care		1,164,292	1,066,617
Patients and other		9,564	8,597
Patient service revenue	$	2,548,487	2,331,509

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

		2022	2021
Inpatient	$	1,387,427	1,248,492
Outpatient/Ambulatory care		1,043,374	984,841
Physician services		117,686	98,176
	$	2,548,487	2,331,509

(Continued)

(In thousands)

The mix of receivables from patients and third-party payors as of June 30, 2022 and 2021 is as follows:

	2022	2021
Medicare	20.7 %	22.5 %
Medicaid	28.8	31.7
Managed care	49.2	44.4
Patients and other	1.3	1.4
	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, 2022 and 2021:

	2022	2021
Uncompensated care:		
Medicaid sponsored indigent healthcare	$ 67,218	110,336
Medicare sponsored indigent healthcare – cost report	131,939	139,660
Medicare sponsored indigent healthcare – physician services	138,746	87,584
Total uncompensated care	337,903	337,580
Charity care	34,500	31,282
	372,403	368,862
Unreimbursed education and research:		
Education (unaudited)	71,880	66,774
Research (unaudited)	48,000	48,000
Total unreimbursed education and research	119,880	114,774
Total community benefits	$ 492,283	483,636

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 2022.

(In thousands)

(7) Investments Limited as to Use

The composition of investments limited as to use is as follows at June 30, 2022 and 2021:

	2022				
	Separately invested	TRIP	Other	Total	2021
Investments carried at fair value:					
Cash equivalents	$ 204	20,406	68,469	89,079	268,927
Global public equities	41,528	354,837	—	396,365	538,244
Private debt	—	55,200	—	55,200	61,525
Private equity:					
U.S. venture capital	128	131,004	—	131,132	151,685
U.S. corporate finance	—	69,441	—	69,441	70,791
International	—	162,929	—	162,929	168,427
Real assets:					
Real estate	—	73,054	—	73,054	72,146
Natural resources	—	76,451	—	76,451	70,406
Absolute return:					
Equity oriented	—	127,911	—	127,911	155,678
Multistrategy	—	78,880	—	78,880	86,199
Credit oriented	—	71,430	—	71,430	71,734
Protection oriented	—	37,129	—	37,129	36,193
Fixed income:					
U.S. Treasuries, including TIPS	—	83,041	—	83,041	76,315
Other fixed income	165,058	—	—	165,058	105,846
Other:					
Beneficial interests in trust	—	—	9,074	9,074	10,715
Funds in trust	—	—	45,639	45,639	24,891
Total investments	$ 206,918	1,341,713	123,182	1,671,813	1,969,722

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:

	2022	2021
Current portion of investments limited to use	$ 67,796	247,395
Investments limited to use, less current portion	1,604,017	1,722,327
Total investments limited to use	$ 1,671,813	1,969,722

(In thousands)

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

	2022			2021
	UCMC	**CHHD**	**Total**	**2021**
Investments limited as to use:				
By the Board for capital improvements/restrictions by donors	$ 193,022	23,762	216,784	164,458
Funds held by custodian/trustee under indenture agreements	112	—	112	115
Funds held by trustee for self-insurance	6,424	39,103	45,527	18,656
Collateral for interest rate swap	—	—	—	6,120
Working capital account – not limited as to use	67,677	—	67,677	241,160
TRIP investments	1,143,640	198,073	1,341,713	1,539,213
Total investments limited to use	$ 1,410,875	260,938	1,671,813	1,969,722

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

	2022			2021
	UCMC	**CHHD**	**Total**	**2021**
Interest and dividend income, net	$ 14,864	2,453	17,317	11,104
Realized gains on sales of securities, net	50,699	10,441	61,140	63,889
Change in unrealized gains and losses on securities, net	(198,579)	(34,160)	(232,739)	312,323
	$ (133,016)	(21,266)	(154,282)	387,316

Outside of TRIP, UCMC also invests in private equity limited partnerships. As of June 30, 2022, 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 balance sheets 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 original maturities of three months or less, 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.

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.

(Continued)

(In thousands)

Funds in trust investments consist primarily of project construction funds and workers' compensation trust funds. Funds in trust comprise 1% cash and cash equivalents and 99% fixed income investments at June 30, 2022 and comprise 1% cash and cash equivalents and 99% fixed income investments at June 30, 2021.

The System believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2022 and 2021. 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, 2022 and 2021 were as follows:

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2022 Total fair value
Cash and cash equivalents	$	60,997	—	—	60,997
Investments:					
Cash equivalents		89,079	—	—	89,079
Global public equities		86,130	—	—	86,130
Real assets:					
Real estate		11,625	—	—	11,625
Fixed income:					
U.S. Treasuries, including TIPS		83,041	—	—	83,041
Other fixed income		165,058	—	—	165,058
Restricted investments			—	9,074	9,074
Funds in trust		6,536	39,103	—	45,639
Investments measured at net asset value[1]					1,182,167
Total investments at fair value		502,466	39,103	9,074	1,732,810
Other assets		10,913	—	—	10,913
Total assets at fair value	$	513,379	39,103	9,074	1,743,723
Liabilities					
Interest rate swap payable	$	—	83,440	—	83,440
Total liabilities at fair value	$	—	83,440	—	83,440

(In thousands)

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2021 Total fair value
Cash and cash equivalents	$	184,639	—	—	184,639
Investments:					
Cash equivalents		268,927	—	—	268,927
Global public equities		138,138	—	—	138,138
Real assets:					
Real estate		14,440	—	—	14,440
Fixed income:					
U.S. Treasuries, including TIPS		76,315	—	—	76,315
Other fixed income		105,846	—	—	105,846
Restricted investments		—	—	10,715	10,715
Funds in trust		12,219	12,671	—	24,890
Investments measured at net asset value[1]					1,330,451
Total investments at fair value		800,524	12,671	10,715	2,154,361
Other assets		10,177	—	—	10,177
Total assets at fair value	$	810,701	12,671	10,715	2,164,538
Liabilities					
Interest rate swap payable	$	—	147,362	—	147,362
Total liabilities at fair value	$	—	147,362	—	147,362

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 2022, there were no transfers between investment 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, 2022 for assets measured at fair value using unobservable inputs classified in Level 3:

		Level 3 rollforward
Beginning fair value	$	10,715
Change in unrealized gains and losses, net		(1,641)
Ending fair value	$	9,074

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 change 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
Global public equities:			
Commingled funds	N/A	Daily to triennial with notice periods of 2 to 180 days	Lock up provisions for up to 2 years; some investments have a portion of capital held in side pockets with no redemptions permitted
Partnerships	N/A	Monthly to triennial with notice periods of 7 to 90 days	Lock up provisions for up to 3 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 90 days	None

(In thousands)

	Remaining life	Redemption terms	Redemption restrictions and terms
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
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 p 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

	Remaining life	Redemption terms	Redemption restrictions and terms
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 to function as endowments. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Illinois is governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board 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, 2022 and 2021, respectively.

(In thousands)

The System has the following donor-restricted endowment activities during the years ended June 30, 2022 and 2021 delineated by net asset class:

		2022	
	Without Donor Restrictions	With Donor Restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	$ 14,863	955	15,818
Net appreciation (realized and unrealized) on investments	(147,879)	(12,270)	(160,149)
Investment return, net of payout	(133,016)	(11,315)	(144,331)
Endowment payout	(57,852)	(3,961)	(61,813)
Net investment return	(190,868)	(15,276)	(206,144)
Other changes in endowment investments:			
Gifts and pledge payments received in cash	88,719	3,013	91,732
Other changes	5,506	—	5,506
Total other changes in endowment investments	94,225	3,013	97,238
Net change in endowment investments	(96,643)	(12,263)	(108,906)
Endowment investments at:			
Beginning of year	1,339,160	114,690	1,453,850
End of year	$ 1,242,517	102,427	1,344,944
Investments by type of fund:			
Donor-restricted “true” endowment:			
Historical gift value	$ —	20,299	20,299
Appreciation	—	82,128	82,128
Board-designated “funds functioning as endowment"	1,242,517	—	1,242,517
Total – as above	$ 1,242,517	102,427	1,344,944

(In thousands)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	$ 9,246	679	9,925
Net appreciation (realized and unrealized) on investments	309,193	29,110	338,303
Investment return, net of payout	318,439	29,789	348,228
Endowment payout	(53,673)	(8,416)	(62,089)
Net investment return	264,766	21,373	286,139
Other changes in endowment investments:			
Gifts and pledge payments received in cash	157,589	18	157,607
Other changes	5,163	—	5,163
Total other changes in endowment investments	162,752	18	162,770
Net change in endowment investments	427,518	21,391	448,909
Endowment investments at:			
Beginning of year	911,642	93,299	1,004,941
End of year	$ 1,339,160	114,690	1,453,850
Investments by type of fund:			
Donor-restricted “true” endowment:			
Historical gift value	$ —	18,930	18,930
Appreciation	—	95,760	95,760
Board-designated “funds functioning as endowment"	1,339,160	—	1,339,160
Total – as above	$ 1,339,160	114,690	1,453,850

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 7-8% 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.

(In thousands)

For endowments invested in TRIP, the Board 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 with the objective of a 5% average payout over time, was 5.5% for the fiscal years ended June 30, 2022 and 2021. 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.

(9) Property, Plant, and Equipment

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

		2022	2021
Land and land rights	$	60,748	55,610
Buildings and improvements		1,964,500	1,941,958
Equipment		810,242	779,917
Construction in progress		125,350	35,712
		2,960,840	2,813,197
Less accumulated depreciation		(1,428,943)	(1,304,047)
Total property, plant, and equipment, net	$	1,531,897	1,509,150

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 $13,600 and $15,400 for 2022 and 2021, respectively, which represents the unamortized portion of initial lease payments made to the University.

Capitalized interest costs in 2022 and 2021 were approximately $658 and $751, respectively. Construction in progress consists of various routine capital improvements and renovation projects. As of June 30, 2022, the System had total contractual commitments associated with ongoing capital projects of approximately $5,306.

(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

(In thousands)

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.

Long-term debt at June 30, 2022 and 2021 consists of the following:

	Fiscal year maturity	Interest rate	2022	2021
University of Chicago Medical Center:				
Fixed rate:				
Illinois Finance Authority:				
Series 2009A (2009B bonds paid off 08-15-20)	2022	5.0 %	$ —	12,795
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 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
Series 2020A	2027	2.5	47,270	47,270
Teachers Insurance and Annuity Association of America (TIAA):				
Series 2017A	2047	4.4	30,000	30,000
New York Life:				
Series 2019E fixed rate taxable	2042	2.7	57,565	60,645
Unamortized premium			13,935	15,276
Total fixed rate			682,985	700,201
Variable rate:				
Series 2013A	2050	1.9/2.5	65,480	66,963
Illinois Educational Facilities Authority (IEFA)	2038	1.1/1.1	55,341	59,028
Total variable rate			120,821	125,991
Unamortized debt issuance costs			(4,302)	(4,607)
Less current portion of long-term debt			(18,543)	(17,358)
Total UCMC long-term portion of debt, less current portion			780,961	804,227
UCMC Title Holding Corporation:				
Fixed rate:				
Brownfield Revitalization 40 – Promissory note A	2024	1.5	—	4,850
Urban Development Fund XLVI – Promissory note A	2024	1.5	—	4,576
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

(In thousands)

	Fiscal year maturity	Interest rate		2022	2021
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				32,476	41,902
Less current portion				—	(1,862)
Title holding company LT portion				32,476	40,040
Total UCMC debt, excludig current portion			$	813,437	844,267
CHHD:					
Fixed Rate: Series 2017	2034	2.5	$	32,390	34,325
Fixed rate: Series 2019	2042	2.7		61,445	63,165
Unamortized debt issuance costs				(320)	(345)
Total debt and unamortized premiums (discount)				93,515	97,145
Less current portion of long-term debt				(3,770)	(3,655)
Total CHHD debt, excluding current portion			$	89,745	93,490
Total notes and bonds payable			$	925,495	960,632
Less current portion				(22,313)	(22,875)
Long-term debt, excluding current portion			$	903,182	937,757

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:		
2023	$	22,313
2024		23,293
2025		25,349
2026		26,103
2027		27,248
Thereafter		791,876
	$	916,182

(In thousands)

(a) 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 letters of credit that support the Series 2009D and 2009E bonds expire in June 2023 and June 2026, respectively. The letters of credit that support the Series 2010A and 2010B bonds expire in May 2025 and July 2024, respectively. The letters of credit that support the Series 2011A and Series 2011B bonds expire in May 2025 and May of 2026, respectively. 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 $55,341 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 one 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.

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:		
2023	$	22,313
2024		171,726
2025		127,532
2026		155,827
2027		27,248
Thereafter		411,536
	$	916,182

(b) Lines of Credit

At June 30, 2021, UCMC had a $100,000 line of credit from a commercial bank. As of June 30, 2022, UCMC has a $100,000 line of credit from a commercial bank that expires March 2, 2023.

As of June 30, 2022 and 2021, no amount was outstanding under the lines.

(c) Interest Payments

The System paid interest, net of capitalized interest, of approximately $31,200 and $31,300 in 2022 and 2021, respectively.

(d) UCMC Title Holding Corporation

During fiscal years 2017 and 2018, UCMC entered into New Markets Tax Credit (NMTC) financing agreements for the purposes of financing various projects at UCMC, including the financing of equipment and the construction of a new emergency department and adult trauma center. UCMC's NMTC consists of NMTC investors (Investors) who provide qualified equity investments to community development entities (CDE's) who in turn provide debt financing to separate not for profit tax-exempt entities, which are qualified active low income community businesses (QALICB). UCMC Title Holding Corporation and UCMC Title Holding Corporation II NFP, the QALICB's, have been consolidated into the financial statements.

In May 2022, the tax compliance period ended for one of the NMTC financing agreements made for UCMC Title Holding Corporation. The Investor of USBCDC Investment Fund 147, LLC exercised their Put Option and UCMC purchased the investment fund for $1. At this time, UCMC recognized a gain of $1,079 related to the investment fund, and the loans in the amount of $7,977 from UCMC to the investment fund, as well as the outstanding principal from the investment fund to UCMC Title Holding Corporation in the amount of $7,763, were extinguished. As of June 30, 2022 UCMC Title Holding Corporation and UCMC Title Holding Corporation II NFP have remaining active financing agreements in the amount of $6,500 and $25,976, respectively.

(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, 2022 and 2021, $0 and $6,120 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.

(In thousands)

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.

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 LIBOR. The inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

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 $78,870 and $138,563 at June 30, 2022 and 2021, 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 $62,885 and $44,967 in 2022 and 2021, respectively, has been included in the change in net assets without donor restrictions in the accompanying 2022 and 2021 consolidated statements of operations and changes in net assets without donor restriction. Management has recognized ineffectiveness of approximately $1,427 in 2022 and an ineffectiveness of $695 in 2021 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 net assets without donor restrictions. 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 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

(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 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 $4,229 and $2,637 in 2022 and 2021, respectively, was recognized as a component of nonoperating gains in the accompanying consolidated statements of operations and changes in net assets without donor restriction. The fair value of the Series 2004 interest rate swap agreement liability of $4,570 and $8,799 at June 30, 2022 and 2021, respectively, is included as a component of other long-term liabilities in the accompanying consolidated balance sheets. 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 statements 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, 2022 is as follows:

Series	Notional amount	Maturity date	Rate received	Rate paid
2004 Interest rate swap Agreement:	$ 34,450	May 15, 2034	% of LIBOR	Fixed 4.61%

(12) Leases

The components of lease cost for the years ended June 30, 2022 and 2021 reported as part of other expenses in the consolidated statements of operations and changes in net assets without donor restrictions, were as follows:

	2022	2021
Operating lease expense	$ 14,477	10,814
Finance lease expense:		
Amortization of right-of-use assets	6,138	5,802
Interest on lease liabilities	1,115	1,146
Total finance lease expense	7,253	6,948
Total lease expense	$ 21,730	17,762

(In thousands)

Amounts reported in the consolidated balance sheets as of June 30, 2022 and 2021 were as follows:

		2022	2021
Operating Leases:			
Right-of-use assets – operating leases	$	66,269	64,323
Accumulated amortization		6,219	4,175
Other assets, net	$	60,050	60,148
Current portion of other long-term liabilities	$	5,831	4,626
Other long-term liabilities, less current portion		54,219	55,522
Total operating lease liabilities	$	60,050	60,148
Finance Leases:			
Right-of-use assets – finance leases	$	49,270	37,818
Accumulated amortization		12,107	7,643
Other assets, net	$	37,163	30,175
Current portion of other long-term liabilities	$	5,859	3,329
Other long-term liabilities, less current portion		32,553	28,055
Total finance lease liabilities	$	38,412	31,384

Other information related to leases as of June 30, 2022 and 2021 was as follows:

Supplemental cash flow information:

		2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flow from operating leases	$	4,795	10,814
Financing cash flow from finance leases		7,612	8,113
ROU assets obtained in exchange for lease obligations:			
Operating leases		4,384	14,318
Finance leases		12,151	2,202
Reductions to ROU assets resulting from reductions to lease obligations:			
Operating leases		6,624	4,175
Finance leases		3,463	8,058

(In thousands)

	2022	2021
Weighted average remaining lease term:		
Operating leases	13.3 years	12.7 years
Finance leases	10.1 years	13.4 years
Weighted-average discount rate:		
Operating leases	2.2 %	2.2 %
Finance leases	5.6	3.5

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 non-cancelable leases as of June 30, 2022 are as follows:

	Operating	Finance
2023	$ 7,080	6,813
2024	5,706	6,801
2025	5,356	5,411
2026	5,287	5,241
2027 and thereafter	45,559	23,614
	68,988	47,880
Less amount representing interest	8,938	9,468
Present value of net minimum lease payments	$ 60,050	38,412

(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, 2022 and 2021 were $10,000 and $5,000, respectively, per claim and unlimited in the aggregate. Claims in excess of $10,000 are subject to an additional self-insurance retention limited to $7,500 per claim and $15,000 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.

(Continued)

(In thousands)

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.

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, 2022 and 2021 is presented below:

		2022	2021
Actuarial present value of self-insurance liability for medical malpractice	$	239,308	202,419
Total assets available for claims		305,422	344,879

If the present-value method were not used, the ultimate liability for medical malpractice self-insurance claims would be approximately $39,047 higher at June 30, 2022. The interest rate assumed in determining the present value was 4.50% and 2.75% for 2022 and 2021, respectively. UCMC has recorded its pro rata share of the malpractice self-insurance liability in the amount of $107,689 and $96,204 at June 30, 2022 and 2021, 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 2022, UCMC’s expense is estimated to be approximately $11,000 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. At June 30, 2022, 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.

On October 1, 2020 a new tax-exempt Cayman domiciled captive, Trulen Insurance SPC Limited (“Trulen”), was incorporated to operate as the new medical malpractice framework for CHHD. Trulen was organized as a Segregated Portfolio Company, which consists of a “core” company and 3 segregated portfolios, or “cells”, which allow segregation of risk and assets between the Hospital and General Liability, employed community physicians, and non-employed contracted provider liabilities. The insurance business of Ingalls Casualty Insurance Limited (“ICIL”), the previous insurer of professional liability insurance for CHHD, was transferred and novated to the three separate portfolios by issuing three separate Deeds of Novation and Business Transfer between Trulen and ICIL. After the completion of the business transfer, ICIL ceased underwriting operations. As of June 30, 2022 the total assets of Trulen were $93,404 and total liabilities were $88,334. Total claim expense as of June 30, 2022 was $13,618.

(In thousands)

(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 multiemployer 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 net assets without donor restrictions. The adjustment to net assets without donor restrictions was $4 and $2,781 for the years ended June 30, 2022 and 2021. UCMC expects to make contributions not to exceed $3,200 for the fiscal year ending June 30, 2022.

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 $28,400 and $11,700 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021 was $0, respectively.

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.

		2022	2021
Projected benefit obligation	$	767,140	1,006,857
Fair value of plan assets		673,813	871,372
Deficit of plan assets over benefit obligation	$	(93,327)	(135,485)

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

	2022	2021
Discount rate	5.0 %	3.2 %
Expected return on plan assets	5.8	6.0
Rate of compensation increase	3.5	3.5

(Continued)

(In thousands)

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

	2022	2021
Domestic equities	29 %	26 %
International equity	20	21
Fixed income	51	53
	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:		
2023	$	75,297
2024		50,528
2025		50,608
2026		49,817
2027		50,486
2028-2032		254,148

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 $9,900 and $700 for the years ended June 30, 2022 and 2021, respectively.

CHHD expense under these distinct defined-contribution retirement plans was $2,900 and $800 for the years ended June 30, 2022 and 2021, respectively.

(In thousands)

(15) Functional Expenses

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

	2022			
	Healthcare services	Admin	Fundraising	Total
Salaries, wages, and benefits	$ 1,165,697	127,257	1,809	1,294,763
Supplies and other	916,851	112,140	1,124	1,030,115
Physician services	312,825	4,121	—	316,946
Insurance	21,191	222	—	21,413
Interest	35,075	1,831	—	36,906
Medicaid provider tax	69,756	—	—	69,756
Depreciation and amortization	131,949	1,321	—	133,270
Total	$ 2,653,344	246,892	2,933	2,903,169

	2021			
	Healthcare services	Admin	Fundraising	Total
Salaries, wages, and benefits	$ 1,017,375	115,028	1,802	1,134,205
Supplies and other	846,656	97,190	741	944,587
Physician services	297,190	6,245	—	303,435
Insurance	39,458	145	—	39,603
Interest	36,242	3,501	—	39,743
Medicaid provider tax	75,683	—	—	75,683
Depreciation and amortization	131,844	863	—	132,707
Total	$ 2,444,448	222,972	2,543	2,669,963

In accordance with ASU 2016-14, Topic 958, Not-for-profit entities are required to report expenses both by their natural classification and their functional classification. Functional classifications have been determined based on their relationship to major program services and supporting activities. For support functions directly related to major program services, an allocation has been applied based on the percentage of time and effort devoted to the program service. For overhead expenses such as utilities and interest expense, an allocation based on square footage has been applied. The costs related to support functions not directly related to program activities have been fully classified as supporting activities.

(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 2022 and 2021 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, 2022

(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	$ 43,473	4,971	29	1,439	—	—	49,912	7,079	4,006	—	60,997
Patient accounts receivable	425,693	—	39,280	—	2,398	—	467,371	2,289	1,661	—	471,321
Current portion of investments limited to use	67,774	22	—	—	—	—	67,796	—	—	—	67,796
Current portion of malpractice self-insurance receivable	21,904	—	—	—	—	—	21,904	—	—	—	21,904
Current portion of pledges receivable	3,543	—	—	—	—	—	3,543	—	—	—	3,543
Due from affiliates	128,980	2,393	100,500	295	11,152	(49,511)	193,809	2,981	14,076	(210,866)	—
Prepaids, inventory, and other current assets	148,666	1,055	11,208	248	127	—	161,304	2,178	41,161	(1,290)	203,353
Total current assets	840,033	8,441	151,017	1,982	13,677	(49,511)	965,639	14,527	60,904	(212,156)	828,914
Investments, limited as to use, less current portion	1,343,101	8,221	132,560	66,111	19,073	(3,215)	1,565,851	—	38,166	—	1,604,017
Property, plant, and equipment, net	1,304,718	6,025	196,156	—	—	—	1,506,899	18,393	6,607	(1)	1,531,898
Pledges receivable, less current portion	4,604	—	—	—	—	—	4,604	—	—	—	4,604
Malpractice self-insurance receivable, less current portion	96,919	—	—	—	—	—	96,919	—	—	—	96,919
Other assets, net	411,715	(5,803)	(2)	—	—	(325,220)	80,690	57,542	1,547	(26,774)	113,005
Total assets	$ 4,001,090	16,884	479,731	68,093	32,750	(377,946)	4,220,602	90,462	107,224	(238,931)	4,179,357
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued expenses	$ 232,137	(37,148)	96,109	1,128	3,119	—	295,345	5,862	36,696	(48,689)	289,214
Current portion of long-term debt	18,543	—	3,770	—	—	—	22,313	—	—	—	22,313
Current portion of other long-term liabilities	10,462	—	—	—	—	—	10,462	1,496	—	(1,294)	10,664
Estimated third-party payor settlements and Medicare Advance	236,882	—	36,882	—	400	—	274,164	—	1,640	1	275,805
Current portion of malpractice self-insurance liability	21,904	—	—	—	—	—	21,904	—	—	—	21,904
Due to affiliates	—	50,622	15,713	58	88	(49,511)	16,970	83,260	61,946	(162,176)	—
Due to the University of Chicago	33,645	—	—	—	—	—	33,645	—	—	—	33,645
Total current liabilities	553,573	13,474	152,474	1,186	3,607	(49,511)	674,803	90,618	100,282	(212,158)	653,545
Workers' compensation self-insurance liability, less current portion	8,124	—	—	—	—	—	8,124	—	—	—	8,124
Malpractice self insurance liability, less current portion	96,919	—	—	—	—	—	96,919	—	81,094	—	178,013
Long-term debt, excluding current installments	780,961	—	89,745	—	—	—	870,706	32,476	—	—	903,182
Interest rate swap liability	78,870	—	4,570	—	—	—	83,440	—	—	—	83,440
Other long-term liabilities, less current portion	129,521	4,509	10,738	—	164	(2,358)	142,574	22,283	52	(36,516)	128,393
Total liabilities	1,647,968	17,983	257,527	1,186	3,771	(51,869)	1,876,566	145,377	181,428	(248,674)	1,954,697
Net assets (deficit):											
Without donor restrictions	2,216,641	(1,099)	218,994	54,624	28,974	(309,740)	2,208,394	(54,915)	(74,226)	9,743	2,088,996
With donor restrictions	136,481	—	3,210	12,283	5	(16,337)	135,642	—	22	—	135,664
Total net assets (deficit)	2,353,122	(1,099)	222,204	66,907	28,979	(326,077)	2,344,036	(54,915)	(74,204)	9,743	2,224,660
Total liabilities and net assets	$ 4,001,090	16,884	479,731	68,093	32,750	(377,946)	4,220,602	90,462	107,224	(238,931)	4,179,357

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

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

Year ended June 30, 2022

(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	$ 2,164,565	—	325,487	—	9,667	—	2,499,719	24,290	26,302	(1,824)	2,548,487
Other operating revenue and net assets released from restrictions	407,166	6,763	10,302	1,743	443	(6,208)	420,209	3,156	37,285	(23,689)	436,961
Total operating revenues	2,571,731	6,763	335,789	1,743	10,110	(6,208)	2,919,928	27,446	63,587	(25,513)	2,985,448
Operating expenses:											
Salaries, wages, and benefits	1,070,188	2,189	161,902	369	8,282	—	1,242,930	18,083	35,059	(1,309)	1,294,763
Supplies and other	883,190	2,047	120,287	1,168	1,845	(900)	1,007,637	11,373	15,582	(4,478)	1,030,114
Physician services	275,449	1,400	23,278	21	241	(4,251)	296,138	6,339	16,660	(2,191)	316,946
Insurance	4,360	1,127	16,208	—	221	(1,057)	20,859	1,550	14,876	(15,872)	21,413
Interest	33,483	—	4,131	—	—	—	37,614	943	3	(1,656)	36,904
Medicaid provider tax	51,832	—	17,924	—	—	—	69,756	—	—	—	69,756
Depreciation and amortization	113,917	534	15,370	—	9	—	129,830	2,416	1,025	—	133,271
Total operating expenses	2,432,419	7,297	359,100	1,558	10,598	(6,208)	2,804,764	40,704	83,205	(25,506)	2,903,167
Operating revenue in excess (deficit) of expenses	139,312	(534)	(23,311)	185	(488)	—	115,164	(13,258)	(19,618)	(7)	82,281
Nonoperating gains (losses), net:											
Investment income, net	(133,016)	(500)	(13,461)	(5,850)	(1,455)	—	(154,282)	—	—	—	(154,282)
Change in fair value of nonhedged derivative instruments	—	—	4,229	—	—	—	4,229	—	—	—	4,229
Derivative ineffectiveness on hedged derivative instruments	(1,427)	—	—	—	—	—	(1,427)	—	—	—	(1,427)
Other, net	(9,570)	(466)	(574)	(259)	(86)	—	(10,955)	7,763	(498)	930	(2,760)
Net nonoperating gains (losses)	(144,013)	(966)	(9,806)	(6,109)	(1,541)	—	(162,435)	7,763	(498)	930	(154,240)
Revenue and gains in excess (deficient) of expenses and losses	(4,701)	(1,500)	(33,117)	(5,924)	(2,029)	—	(47,271)	(5,495)	(20,116)	923	(71,959)
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	4	—	—	—	—	—	4	—	—	—	4
Effective portion of change in valuation of derivatives	62,885	—	—	—	—	—	62,885	—	—	—	62,885
Net assets released from restriction for capital purposes	36	—	—	—	—	—	36	—	—	—	36
Distributions and other, net	(5,000)	(2)	13,914	(7,512)	—	—	1,400	—	(1,405)	5	—
Increase (decrease) in net assets without donor restrictions	$ (18,526)	(1,502)	(19,203)	(13,436)	(2,029)	—	(54,696)	(5,495)	(21,521)	928	(80,784)

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, 2022

(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	$ (4,701)	(1,500)	(33,117)	(5,924)	(2,029)	—	(47,271)	(5,495)	(20,116)	923	(71,959)
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	4	—	—	—	—	—	4	—	—	—	4
Effective portion of change in valuation of derivatives	62,885	—	—	—	—	—	62,885	—	—	—	62,885
Net assets released from restriction for capital purposes	36	—	—	—	—	—	36	—	—	—	36
Distributions and other, net	(5,000)	(1)	13,913	(7,512)		—	1,400	—	(1,405)	5	—
Increase (decrease) in net assets without donor restrictions	(18,526)	(1,501)	(19,204)	(13,436)	(2,029)	—	(54,696)	(5,495)	(21,521)	928	(80,784)
Net assets with donor restrictions:											
Contributions	10,546	—	—	398			10,944	—	(3)	3	10,944
Change in net interest in Foundation	—	—	50	—	—	(50)	—		—	—	—
Net assets released from restrictions used for operating purposes	(9,108)	—	—	(348)	—		(9,456)	—	—		(9,456)
Net assets released from restrictions used for capital purposes	(36)	—	—		—	—	(36)	—	—		(36)
Investment return, net	(9,671)	—		(1,641)	—	—	(11,312)	—	—	—	(11,312)
Increase (decrease) in net assets with donor restrictions	(8,269)	—	50	(1,591)	—	(50)	(9,860)	—	(3)	3	(9,860)
Change in net assets	(26,795)	(1,501)	(19,154)	(15,027)	(2,029)	(50)	(64,556)	(5,495)	(21,524)	931	(90,644)
Net assets (deficit) at beginning of year	2,379,917	402	241,358	81,934	31,008	(326,027)	2,408,592	(49,420)	(52,680)	8,812	2,315,304
Net assets (deficit) at end of year	$ 2,353,122	(1,099)	222,204	66,907	28,979	(326,077)	2,344,036	(54,915)	(74,204)	9,743	2,224,660

See accompanying independent auditors' report.