The University of Chicago Medical Center

Financial Statements
June 30, 2015 and 2014

The University of Chicago Medical Center
Index
June 30, 2015 and 2014

Independent Auditor's Report

To the Board of Trustees of
The University of Chicago Medical Center:

We have audited the accompanying financial statements of The University of Chicago Medical Center, which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of operations, of changes in net assets, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Chicago Medical Center at June 30, 2015 and 2014, and the results of its operations and of its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 29, 2015

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The University of Chicago Medical Center
Balance Sheets
June 30, 2015 and 2014
(in thousands of dollars)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 163,969	$ 79,698
Patient accounts receivable, less allowance for doubtful accounts for 2015 - $51,737 and 2014 - $41,874	209,736	184,765
Current portion of investments limited to use	5,033	11
Current portion of malpractice self-insurance receivable	20,129	19,305
Current portion of pledges receivable	1,102	2,598
Prepaids, inventory and other current assets	43,148	34,176
Total current assets	443,117	320,553
Investments limited to use, less current portion	1,013,224	1,021,660
Property, plant and equipment, net	1,232,784	1,199,907
Pledges receivable, less current portion	1,522	1,893
Malpractice self-insurance receivable, less current portion	92,571	96,134
Other assets, net	19,350	16,895
Total assets	$ 2,802,568	$ 2,657,042
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 127,477	$ 115,093
Current portion of long-term debt	11,535	10,050
Current portion of other long-term liabilities	197	311
Current portion of estimated third-party payor settlements	98,975	89,805
Current portion of malpractice self-insurance liability	20,129	19,305
Due to University of Chicago	59,437	15,761
Total current liabilities	317,750	250,325
Other liabilities		
Worker's compensation self-insurance liabilities, less current portion	8,174	8,241
Malpractice self-insurance liability, less current portion	92,571	96,134
Long-term debt, less current portion	868,008	831,035
Interest rate swap liability	110,447	95,810
Other long-term liabilities, less current portion	44,071	33,595
Total liabilities	1,441,021	1,315,140
Net assets		
Unrestricted	1,267,336	1,245,856
Temporarily restricted	86,109	87,954
Permanently restricted	8,102	8,092
Total net assets	1,361,547	1,341,902
Total liabilities and net assets	$ 2,802,568	$ 2,657,042

The accompanying notes are an integral part of these financial statements.

The University of Chicago Medical Center
Statements of Operations
Years Ended June 30, 2015 and 2014
(in thousands of dollars)

	2015	2014
Operating revenues		
Net patient service revenue	$ 1,493,816	$ 1,409,095
Provision for doubtful accounts	52,166	55,169
Net patient service revenue after provision for doubtful accounts	1,441,650	1,353,926
Other operating revenues and net assets released from restrictions	101,643	93,577
Total operating revenues	1,543,293	1,447,503
Operating expenses		
Salaries, wages and benefits	681,909	627,588
Supplies and other	400,536	367,633
Physician services from the University of Chicago	205,461	204,586
Insurance	16,774	15,345
Interest	35,632	33,354
Medicaid provider tax	36,935	46,071
Depreciation and amortization	81,902	83,563
Total operating expenses	1,459,149	1,378,140
Total operating income	84,144	69,363
Nonoperating gains		
Investment income and unrestricted gifts, net	26,788	101,159
Derivative ineffectiveness gain (loss)	(567)	535
Excess of revenues over expenses	110,365	171,057
Other changes in net assets		
Transfers to University of Chicago	(70,501)	(72,749)
Net assets released for capital purchases	2,204	2,462
Liability for pension benefits	(8,192)	1,337
Changes in valuation of derivatives	(12,396)	(5,914)
Other, net	-	36
Increase in unrestricted net assets	$ 21,480	$ 96,229

The accompanying notes are an integral part of these financial statements.

The University of Chicago Medical Center
Statements of Changes in Net Assets
Years Ended June 30, 2015 and 2014
(in thousands of dollars)

	2015	2014
Unrestricted net assets		
Excess of revenues over expenses	$ 110,365	$ 171,057
Transfers to University of Chicago	(70,501)	(72,749)
Net assets released for capital purchases	2,204	2,462
Liability for pension benefits	(8,192)	1,337
Changes in valuation of derivatives	(12,396)	(5,914)
Other, net	-	36
Increase in unrestricted net assets	21,480	96,229
Temporarily restricted net assets		
Contributions	2,697	4,007
Net assets released from restrictions used for operating purposes	(5,124)	(4,860)
Investment Income	2,786	9,298
Net assets released for capital purchases	(2,204)	(2,462)
Increase (decrease) in temporarily restricted net assets	(1,845)	5,983
Permanently restricted net assets		
Contributions and other	10	2,000
Increase in net assets	19,645	104,212
Net assets at beginning of year	1,341,902	1,237,690
Net assets at end of year	$ 1,361,547	$ 1,341,902

The accompanying notes are an integral part of these financial statements.

The University of Chicago Medical Center
Statements of Cash Flows
Years Ended June 30, 2015 and 2014
(in thousands of dollars)

	2015	2014
Cash flows from operating activities		
Increase in net assets	$ 19,645	$ 104,212
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net change in unrealized gains on investments	37,631	(65,113)
Transfers to University of Chicago	70,501	72,749
Restricted contributions and other changes	(2,697)	(4,008)
Realized gains on investments	(58,351)	(45,346)
Net change in valuation of derivatives	14,637	7,041
Pension and other changes in unrestricted net assets	8,192	(1,373)
Loss on disposal of assets	(10)	1,071
Depreciation and amortization	81,902	83,564
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable, net	(24,971)	19,514
Other assets	(12,678)	(1,256)
Accounts payable and accrued expenses	8,398	(10,582)
Due to the University of Chicago	43,676	962
Estimated settlements with third-party payors	15,931	39,859
Self-insurance liabilities	(67)	(1,287)
Other liabilities	(4,943)	(1,816)
Net cash provided from operating activities	196,796	198,191
Cash flows from investing activities		
Purchases of property, plant and equipment	(109,524)	(100,571)
Uses of construction/capitalized interest funds	-	19
Purchases of investments	(346,607)	(422,420)
Sales of investments	370,733	308,505
Net cash used in investing activities	(85,398)	(214,467)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	74,874	24,020
Payments on long-term obligations	(36,064)	(24,026)
Transfers paid to the University of Chicago, net	(70,501)	(72,749)
Restricted contributions	4,564	4,225
Net cash used in financing activities	(27,127)	(68,530)
Net increase (decrease) in cash and cash equivalents	84,271	(84,806)
Cash and cash equivalents		
Beginning of year	79,698	164,504
End of year	$ 163,969	$ 79,698

The accompanying notes are an integral part of these financial statements.

1. Organization and Basis of Presentation

The University of Chicago Medical Center ("UCMC" or the "Medical Center") is an Illinois not-for-profit corporation. UCMC operates the Center for Care and Discovery, the Bernard Mitchell Hospital, the Chicago Lying-In Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, and various other outpatient clinics and treatment areas.

The University of Chicago (the "University"), as the sole corporate member of UCMC, elects UCMC's Board of Trustees and approves its By-Laws. 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 By-Laws, an Affiliation Agreement, an Operating Agreement, and several Leases. See Note 3 for agreements and transactions with the University.

UCMC is a tax-exempt organization under Section 501(c)3 of the Internal Revenue Code. Accordingly, no provision for income taxes related to these entities has been made.

2. Summary of Significant Accounting Policies

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, "Revenue From Contracts With Customers." This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. In August 2015, the FASB issued an amendment to this standard which deferred the effective date of the new guidance by one year. The guidance is effective for UCMC beginning July 1, 2019; however early adoption for annual periods beginning after December 15, 2016 is permitted. UCMC is evaluating the impact this accounting guidance may have on its financial statements.

During 2015, the Medical Center adopted the provisions of Accounting Standards Update 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This pronouncement is effective for fiscal years beginning on or after December 15, 2016, and UCMC has elected early adoption. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. See Note 5 for related fair value disclosures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are made in the areas of patient accounts receivable, accruals for settlements with third-party payors, malpractice liability, fair value of investments, goodwill, and accrued compensation and benefits.

Community Benefits

UCMC'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 (EMTALA). UCMC also accepts patients through the Perinatal and Pediatric Trauma Networks without regard to their ability to pay for services.

UCMC 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 UCMC does not pursue collection of these amounts, they are not reported as net patient service revenue. The 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, 2015 and 2014, are reported in Note 4.

Fair Value of Financial Instruments
Fair value is defined as the price that the Medical Center would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Medical Center 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 Medical Center. 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.

Cash and Cash Equivalents
Cash equivalents include U.S. Treasury notes, commercial paper, and corporate notes with original maturities of three months or less, except that such instruments purchased with endowment assets or funds on deposit with bond trustees are classified as investments. Cash equivalents are considered Level 1 in the fair value hierarchy.

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

Investments

Investments are recorded in the financial statements at estimated fair value. If an investment is held directly by the Medical Center 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 Medical Center'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, 2015 and 2014, the Medical Center had no plans to sell investments at amounts different from NAV.

A summary of the inputs used in valuing the Medical Center's investments as of June 30, 2015 and 2014 is included in Note 5.

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

A summary of the inputs used in valuing the Medical Center's investments as of June 30, 2015 and 2014 is included in Note 5.

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. As of June 30, 2015 and 2014, there were no endowments in a deficit position.

Investments Limited as to Use

Investments limited as to use primarily include assets held by trustees under debt and other agreements and designated assets set aside by the Board of Trustees for future capital improvements and other specific purposes, over which the Board retains control and may at their discretion subsequently use for other purposes.

Derivative Instruments

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 the Medical Center would have to pay or receive to terminate the agreements as of the consolidated balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty. The swap values are based on the London Interbank Rate ("LIBOR"). The inputs to the fair value estimate are considered Level 2 in the fair value hierarchy. The effective date of the swap was August 2011. In July 2011, UCMC novated the original swap agreement to divide the original notional amount in two equal parts between financial institutions. The fair value of the terminated portion of the hedge on the date of the novation was recorded in net assets in the amount of $35,123 and is being amortized into interest expense over the life of the related debt, commencing on February 23, 2013, the date the Center for Care and Discovery was placed into service. The new agreement is being accounted for as a hedge. The combined notional amount of the swap is $325,000 and the effective start date was August 2011. Management determined that the interest rate swaps are effective, and have qualified for hedge accounting. Management has recognized ineffectiveness of approximately $600 in 2015 and a recovery of ineffectiveness of approximately $500 in 2014. This movement reflects the spread between tax exempt interest rates and LIBOR during the period. The effective portion of these swaps is included in other changes in unrestricted net assets. The interest rate swaps terminate on February 1, 2044. Cash settlement payments related to the swaps were accumulated in net assets while the Center for Care and Discovery was under construction, and are being amortized into depreciation expense over the life of the building. Amortization commenced on February 23, 2013, the date the Center for Care and Discovery was placed into service. Cash settlement payments after the Center for Care and Discovery was placed into service are recorded in interest expense.

UCMC is required to provide collateral on one of the interest rate swap agreements when the liability of that swap exceeds $50,000. At June 30, 2015 and 2014, $5,030 and $0 was held as collateral, respectively, and recorded in current portion of investments limited to use. If UCMC's credit rating were to be downgraded one level; collateral would need to be provided under the swap with JP Morgan when the liability of that swap exceeds $40,000 and under the Wells Fargo swap when the liability of that swap exceeds $60,000. Upon further downgrade, the collateral requirements increase.

Property, Plant and Equipment
Property, plant and equipment are reported on the basis of cost less accumulated depreciation and amortization. Donated items are recorded at fair market value at the date of contribution. The carrying value of property, plant and equipment is reviewed if the facts and circumstances suggest that it may be impaired. Depreciation of property, plant and equipment is calculated by use of the straight-line method at rates intended to depreciate the cost of assets over their estimated useful lives, which generally range from three to eighty years. Interest costs incurred on borrowed funds during the period of construction of capital assets, net of any interest earned, are capitalized as a component of the cost of acquiring those assets.

Asset Retirement Obligation
UCMC recognizes a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. Upon recognition of a liability, the asset retirement cost is recorded as an increase in the carrying value of the related long-lived asset and then depreciated over the life of the asset. The UCMC asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. UCMC's obligation to remove asbestos was estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

Pledges Receivable
Unconditional promises to give are recognized initially at fair value as private gift revenue in the period the promise is made by a donor. Fair value of the pledge is estimated based on anticipated future cash receipts (net of an allowance for uncollectible amounts), discounted using a risk-adjusted rate commensurate with the duration of the payment plan. These inputs to the fair value

estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible amounts is reassessed and adjusted if necessary.

Other Assets and Liabilities
Other assets and liabilities, including deferred financing costs, which are amortized over the term of the related obligations, do not differ materially from their estimated fair value and are considered Level 1 in the fair value hierarchy

Net Assets
Permanently restricted net assets include the historical dollar amounts of gifts that are required by donors to be permanently retained. Temporarily restricted net assets include gifts, which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (such as pledges to be paid in the future) or by interpretations of law. Unrestricted net assets include all the remaining net assets of UCMC. See Note 15 for further information on the composition of restricted net assets.

Realized gains and losses are classified as changes in unrestricted net assets unless they are restricted by the donor or law.

Gifts and Grants
Unconditional promises to give assets other than cash to UCMC are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions whose restrictions are met within the same year received are reported as unrestricted gifts in the accompanying financial statements.

Gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets until the assets are placed into service.

Statement of Operations
All activities of UCMC deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenues and expenses. Activities deemed to be nonoperating include certain investment income (including realized gains and losses).

UCMC recognizes changes in accounting estimates related to third-party payor settlements as more experience is acquired. Adjustments to prior year estimates for these items resulted in an increase in net patient service revenues of $900 in 2015 and $10,700 in 2014.

In 2014, UCMC recognized a gain of $2.5 million from the sale of its investment in VHS Acquisition Subsidiary No. 3, Inc. and received $2.5 million in cash. The investment had been fully reserved at the time that it was acquired.

The statement of operations includes excess (deficit) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (deficit) of revenues over expenses include 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

UCMC assets), the effective portion of changes in the valuation of the interest rate swap, and pension benefit liabilities.

Net Patient Service Revenue, Accounts Receivable and Allowance for Doubtful Accounts
UCMC maintains agreements with the Social Security Administration under the Medicare Program, Blue Cross and Blue Shield of Illinois, Inc. (Blue Cross), and the State of Illinois under the Medicaid Program and various managed care payors that govern payment to UCMC for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem rates or payments based on allowable costs, subject to certain limitations, for inpatient care and discounted charges or fee schedules for outpatient care.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and UCMC estimates are adjusted in future periods as adjustments become known or as years are no longer subject to UCMC audits, reviews and investigations. Contracts, laws and regulations governing Medicare, Medicaid, and Blue Cross are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. A portion of the accrual for settlements with third-party payors has been classified as long-term because UCMC estimates they will not be paid within one year.

The process for estimating the ultimate collectability of receivables involves significant assumptions and judgment. UCMC has implemented a standardized approach to this estimation based on the payor classification and age of outstanding receivables. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. The use of historical collection experience is an integral part of the estimation of the reserve for doubtful accounts. Revisions in the reserve for doubtful accounts are recorded as adjustments to the provision for doubtful accounts.

Hospital Assessment Program/Medicaid Provider Tax
In December 2008, the State of Illinois, after receiving approval by the federal government, implemented a hospital assessment program. The program assessed hospitals a provider tax based on occupied bed days and provided increases in hospitals' Medicaid payments. In 2014, the federal government also approved the enhanced Medicaid Assessment Program retroactive to June 10, 2012. The program, including the enhanced assessment program, results in a net increase of $30,200 in income from operations, which represents $76,300 in additional Medicaid payments offset by $46,100 in Medicaid provider tax for 2014. For 2015, the assessment program resulted in a net increase of $28,400 in operating income, which represents $65,400 in additional Medicaid payments offset by $36,900 in Medicaid provider tax.

Affordable Care Act (ACA)
In March 2010, the federal government passed the Affordable Care Act (ACA) which expanded Medicaid coverage to millions of low-income Americans and made improvements to both the Medicaid and the Children's Health Insurance Program. Beginning in 2014, coverage for newly eligible adults would be funded by the federal government for three years. UCMC recognized $16,800 and $0 of revenue in 2015 and 2014, respectively, under this new law. Due to the timing of actual payments, UCMC recorded a receivable of $5,000 as of June 30, 2015.

Subsequent Events

UCMC has performed an evaluation of subsequent events through October 15, 2015, which is that date the financial statements were issued, and none were identified.

3. 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 gives 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 health care 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, 2015 and 2014, the University charged UCMC approximately $29,000 and $31,100, respectively, for utilities, security, telecommunications, insurance and overhead.

The University's Division of Biological Sciences ("BSD") provides physician services to UCMC. In 2015 and 2014, UCMC recorded approximately $205,500 and $204,600, respectively, in expense related to these services.

UCMC's Board of Trustees adopted a plan of support under which it would provide annual net asset transfers to the University for support of academic programs in biology and medicine. All commitments under this plan are subject to the approval of UCMC's Board of Trustees and do not represent legally binding commitments until that approval. Unpaid portions of commitments approved by the UCMC Board of Trustees are reflected as current liabilities. UCMC recorded net asset transfers of $71,750 in 2015 and 2014 for this support.

4. Community Benefits

The unreimbursed cost of providing care under the 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, 2015 and 2014, are as follows:

(in thousands of dollars)

	Years Ended June 30, 2015	2014
Uncompensated care:		
Medicaid sponsored indigent healthcare	$ 51,834	$ 46,896
Medicare sponsored indigent healthcare - Cost Report	68,802	66,187
Medicare sponsored indigent healthcare - Physician Services	8,476	7,692
Total uncompensated care	129,112	120,775
Provision for doubtful accounts	12,145	13,438
Charity care	15,425	25,181
	156,682	159,394
Unreimbursed education and research:		
Education	87,021	87,161
Research	48,000	48,000
Total unreimbursed education and research	135,021	135,161
Total community benefits	$ 291,703	$ 294,555

The Medical Center 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, based on data from its costing system to determine a cost-to-charge ratio. The cost to charge ratio is applied to the charity care charge to calculate the charity care amount reported above.

(in thousands of dollars)

5. Investments Limited as to Use

The composition of investments limited as to use is as follows at June 30:

	2015				
	Endowments				
	Separately Invested	TRIP	Other	Total	2014
Investments carried at fair value:					
Cash Equivalents	$ 362	$ 22,000	$ 665	$ 23,027	$ 27,687
Global Public Equities	86,192	150,738	-	236,930	259,065
Private Debt	-	31,372	-	31,372	23,055
Private Equity					
U.S. Venture Capital	2,884	40,045	-	42,929	42,828
U.S. Corporate Finance	-	36,875	-	36,875	35,858
International	168	42,189	-	42,357	44,725
Real Assets					
Real Estate	-	50,933	-	50,933	59,020
Natural Resources	-	51,676	-	51,676	66,979
Absolute Return					
Equity Oriented	-	70,046	-	70,046	55,327
Global Macro/Relative Value	-	56,579	-	56,579	46,685
Multi-Strategy	-	58,065	-	58,065	60,708
Credit-Oriented	-	34,386	-	34,386	21,035
Protection-Oriented	-	14,945	-	14,945	12,287
Fixed Income					
U.S. Treasuries, including TIPS	15,605	40,863	-	56,468	127,102
Other Fixed Income	116,557	73,659	-	190,216	122,179
Funds in Trust	-	-	21,453	21,453	17,131
Total Investments	$ 221,768	$ 774,371	$ 22,118	$ 1,018,257	$ 1,021,671

Investments classified as other consist of construction and debt proceeds to pay interest, donor restricted, worker's compensation, self-insurance, and trustee-held funds. Investments are presented in the financial statements as follows:

	2015	2014
Current portion of investments limited to use	$ 5,033	$ 11
Investments limited to use, less current portion	1,013,224	1,021,660
Total investments limited to use	$ 1,018,257	$ 1,021,671

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

	2015	2014
Interest and dividend income, net	$ 12,567	$ 14,638
Realized gains on sales of securities	52,460	27,097
Unrealized gains (losses) on securities	(38,239)	59,424
	$ 26,788	$ 101,159

Outside of TRIP, UCMC also invests in private equity limited partnerships. As of June 30, 2015, UCMC has commitments of $1,700 remaining to fund private equity limited partnerships.

Fair Value of Financial Instruments
The overall investment objective of the Medical Center 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 Medical Center diversifies its investments among various asset classes incorporating multiple strategies and external investment managers, including the University of Chicago 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.

Cash equivalent investments include cash equivalents and fixed-income investments, with maturities of less than one year, 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 with liquidity ranging from daily to monthly, 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 are 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 on behalf of the Medical Center monitors the valuation methodologies and practices of managers.

The absolute return portfolio is comprised of 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.

(in thousands of dollars)

Funds in trust investments consist primarily of project construction funds, worker's compensation trust funds, and externally managed endowments.

The Medical Center believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2015 and 2014. 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, 2015 and 2014 were as follows:

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2015 Total Fair Value
Investments:				
Cash Equivalents	23,028	-	-	23,028
Global Public Equities	112,814	3,579	-	116,393
Private Debt	-	-	-	-
Private Equity				
U.S. Venture Capital	-	-	-	-
U.S. Corporate Finance	-	-	-	-
International	-	-	-	-
Real Assets				
Real Estate	2,123	-	-	2,123
Natural Resources	3,300	-	-	3,300
Absolute Return				
Equity Oriented	-	-	-	-
Global Macro/Relative Value	10,074	-	-	10,074
Multi-Strategy	-	-	-	-
Credit-Oriented	-	-	-	-
Protection-Oriented	-	-	-	-
Fixed Income				
U.S. Treasuries, including TIPS	56,468	-	-	56,468
Other Fixed Income	176,136	-	-	176,136
Funds in Trust	21,453	-	-	21,453
Investments measured at net asset value	-	-	-	609,282
Total investments at fair value	405,396	3,579	-	1,018,257
Other assets	5,216	-	-	5,216
Total assets at fair value	$ 410,612	$ 3,579	$ -	$ 1,023,473
Liabilities				
Interest rate swap payable	$ -	$ 110,447	$ -	110,447
Total liabilities at fair value	$ -	$ 110,447	$ -	$ 110,447

(in thousands of dollars)

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2014 Total Fair Value
Investments:				
Cash Equivalents	27,687	-	-	27,687
Global Public Equities	149,741	79,272	-	229,013
Private Debt	-	-	-	-
Private Equity				
U.S. Venture Capital	249	-	-	249
U.S. Corporate Finance	-	-	-	-
International	-	-	-	-
Real Assets				
Real Estate	1,164	-	-	1,164
Natural Resources	-	-	-	-
Absolute Return				
Equity Oriented	7,861	13,099	-	20,960
Global Macro/Relative Value	5,554	11,547	-	17,101
Multi-Strategy	-	6,666	-	6,666
Credit-Oriented	-	-	-	-
Protection-Oriented	-	12,288	-	12,288
Fixed Income				
U.S. Treasuries, including TIPS	59,014	-	-	59,014
Other Fixed Income	122,179	-	-	122,179
Funds in Trust	17,130	-	-	17,130
Investments measured at net asset value	-	-	-	508,220
Total investments at fair value	390,579	122,872	-	1,021,671
Other assets	3,675	-	-	3,675
Total assets at fair value	$ 394,254	$ 122,872	$ -	$ 1,025,346
Liabilities				
Interest rate swap payable	$ -	$ 95,810	$ -	95,810
Total liabilities at fair value	$ -	$ 95,810	$ -	$ 95,810

During 2015 there were no transfers between investment Levels 1 and 2 or between levels 2 and 3.

The interest rate swap arrangement has inputs which can generally be corroborated by market data and is therefore classified within level 2.

The 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 UCMC 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 UCMC's long-lived partnership investments include a combination of cost, discounted cash flow analysis, industry comparables and outside appraisals. Significant increases (decreases) in any inputs used by investment managers in determining net asset values in isolation would result in a significantly lower (higher) fair value measurement.

(in thousands of dollars)

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

	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Cash	N/A	Daily	None
Global Public Equities:			
Index Funds	NA	Daily	None
Separate Accounts	N/A	Daily with notice periods of 1 to 7 years	Lock-up provisions ranging from 0 to 1 year
Partnerships	N/A	Daily to triennial with notice periods of 2 to 90 days	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital held in side pockets with no redemptions permitted
Private Debt:			
Partnerships	N/A	Redemptions not permitted	Capital held in side pockets with no redemption permitted
Drawdown partnerships	1 to 10 years	Redemptions not permitted	N/A
Private Equity	1 to 19 years	Redemptions not permitted	N/A
Real Estate:			
Drawdown partnerships	1 to 18 years	Redemption not permitted	N/A
Separate accounts	N/A	Daily with notice period of 5 days	None
Natural resources	1 to 17 years	Redemptions not permitted	N/A
Absolute Return:			
Partnerships	N/A	Daily to triennial with notice periods of 1 to 180 days.	Lock-up provisions ranging from 0 to 3 years, some investments have a portion of capital in side pockets with no redemptions permitted
Drawdown Partnerships	1 to 3 years	Redemptions not permitted	N/A
Fixed Income:			
Separate Accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None
Commingled Funds	N/A	Daily to monthly with notice periods of 1 to 10 days	None
Partnerships	N/A	Quarterly with notice periods of 10 days	Only one-third capital available in any 12-month period
Funds Held in Trust:	N/A	Daily	None

(in thousands of dollars)

6. Endowments

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

Illinois is governed by the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA). The Board of Trustees of UCMC has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, UCMC classifies as permanently restricted net assets, (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 remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by UCMC in a manner consistent with the standard of prudence prescribed by UPMIFA.

UCMC has the following donor-restricted endowment activities during the years ended June 30, 2015 and 2014 delineated by net asset class:

	Unrestricted			
	Funds Functioning	Temporarily Restricted	Permanently Restricted	2015 Total
Endowment net assets, beginning of year	$ 921,696	$ 74,468	$ 8,082	$ 1,004,246
Investment return:				
Investment income	40,491	907	-	41,398
Net appreciation (realized and unrealized)	(13,703)	1,879	-	(11,824)
Total investment return	26,788	2,786	-	29,574
Gifts and other additions	32,000	-	10	32,010
Appropriation of endowment assets for expenditure	(43,486)	(4,095)	-	(47,581)
Replenishment of endowment assets for capital	(21,332)	-	-	(21,332)
Other	(1,187)	409	-	(778)
Endowment net assets, end of year	$ 914,479	$ 73,568	$ 8,092	$ 996,139

(in thousands of dollars)

	Unrestricted Funds Functioning	Temporarily Restricted	Permanently Restricted	2014 Total
Endowment net assets, beginning of year	$ 707,290	$ 68,634	$ 6,082	$ 782,006
Investment return:				
Investment income	37,212	1,207	-	38,419
Net appreciation (realized and unrealized)	63,947	8,092	-	72,039
Total investment return	101,159	9,299	-	110,458
Gifts and other additions	87,500	-	2,000	89,500
Appropriation of endowment assets for expenditure	(40,272)	(3,850)	-	(44,122)
Replenishment of endowment assets for capital	67,215			67,215
Other	(1,196)	385	-	(811)
Endowment net assets, end of year	$ 921,696	$ 74,468	$ 8,082	$ 1,004,246

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (Endowments only) as of June 30, 2015 and 2014:

	Perpetual	Time-Restricted by Donor	Time-Restricted by Law	2015 Total
Restricted for pediatric health care	$ 1,855		$ 17,409	$ 19,264
Restricted for adult health care	1,926		53,481	55,407
Restricted for educational and scientific programs	4,311		2,678	6,989
	$ 8,092	$ -	$ 73,568	$ 81,660

	Perpetual	Time-Restricted by Donor	Time-Restricted by Law	2014 Total
Restricted for pediatric health care	$ 1,845	$ -	$ 16,918	$ 18,763
Restricted for adult health care	1,925	-	54,780	56,705
Restricted for educational and scientific programs	4,312	-	2,769	7,081
	$ 8,082	$ -	$ 74,467	$ 82,549

(in thousands of dollars)

Investment and Spending Policies
UCMC 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. UCMC expects its endowment funds over time, to provide an average rate of return of approximately 6% annually. To achieve its long-term rate of return objectives, UCMC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

For endowments invested in TRIP, the Board of Trustees of UCMC has adopted the University's method to be used to appropriate endowment funds for expenditure, including following the University's payout formula. The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments, lagged by one year, is available each year for expenditure in the form of endowment payout. The exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5.5% for the fiscal years ended June 30, 2015 and 2014. 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, UCMC 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.

7. Property, Plant and Equipment

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

	2015	2014
Land and land rights	$ 36,008	$ 36,008
Buildings and improvements	1,385,018	1,288,213
Equipment	512,531	515,713
Construction in progress	55,238	58,313
	1,988,795	1,898,247
Less accumulated depreciation	(756,011)	(698,340)
Total property, plant and equipment, net	$ 1,232,784	$ 1,199,907

UCMC's net property, plant and equipment cost includes $10,000 representing assets under capital leases with the University, which are stated at the UCMC's historical cost. The cost of buildings that are jointly used by the University and UCMC is allocated based on the lease provisions. In addition, land and land rights includes $16,400 and $17,800 for 2015 and 2014, respectively, which represents the unamortized portion of initial lease payments made to the University. UCMC entered into a services agreement in 2013 for the exclusive right to operate certain food service operations at the Medical Center, which included a capital commitment in the amount of $11,800 for equipment and renovations provided by the contractor. In 2014 UCMC terminated this food service operation agreement and settled all outstanding balances, including the capital commitment. The amount outstanding under this commitment as of June 30, 2015 and 2014 was $0.

(in thousands of dollars)

A new parking garage was placed into service in 2015 with a total cost of $79,500; approximately $47,200 was spent in 2015 related to the structure.

Capitalized interest costs in 2015 and 2014 were $300 and $60, respectively.

8. Long-Term Debt

Long-term debt as of June 30 consists of the following:

	Final fiscal year maturity	Interest rate	2015	2014
Fixed rate:				
Illinois Health Facilities Authority:				
Series 2003	2015	5.0	$ -	$ 7,410
Illinois Finance Authority:				
Series 2009A and B	2027	4.9	148,480	149,330
Series 2009C	2037	5.4	60,900	85,000
Series 2009D-1 and 2 (synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2009E-1 and 2 (synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2010 A and B (synthetically fixed rate)	2045	3.9	92,500	92,500
Series 2011 A and B (synthetically fixed rate)	2045	3.9	92,500	92,500
Series 2011C	2042	5.5	90,000	90,000
Series 2012A	2037	4.5	68,535	70,325
Series 2015A	2029	5.0	21,895	0
Unamortized premium			12,016	9,797
Total fixed rate			726,826	736,862
Variable rate:				
Series 2013A	2020	3.1	75,000	24,706
Illinois Educational Facilities Authority (IEFA)	2038	0.1	77,717	79,517
Total variable rate			152,717	104,223
Total notes and bonds payable			879,543	841,085
Less current portion of long-term debt			(11,535)	(10,050)
Long-term portion of debt			$ 868,008	$ 831,035

The fair value of long-term debt is based on the pricing of fixed-rate bonds of market participants, including assumptions about the present value of current market interest rates, and loans of comparable quality and maturity. The fair value of long-term debt would be a Level 2 hierarchy. The carrying value of long-term debt is below the estimated fair value of the debt by $27,400 and $37,400 as of June 30, 2015 and June 30, 2014, respectively, based on the quoted market prices for the same or similar issues.

Scheduled annual repayments for the next five years are as follows at June 30:

Year	Amount
2016	$ 12,778
2017	13,255
2018	13,868
2019	14,513
2020	15,208

Under its various indebtedness agreements, the Medical Center 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 Medical Center property; and certain other nonfinancial covenants. Each of the bond series is collateralized by unrestricted receivables under a Master Trust Indenture and subject to certain restrictions. The Medical Center was in compliance with its debt covenants as of June 30, 2015 and 2014.

Recent Financing Activity

In March 2015, the IFA issued $21,895 of Series 2015A Revenue Refunding Bonds, allocated to the Medical Center for the purpose of refunding a portion of the Illinois Health Facilities Authority Revenue Bonds, Series 2009C. The Series 2015A Bonds are secured by a Direct Note Obligation, Series 2015A of the Medical Center issued pursuant to the Master Trust Indenture. The extinguishment of the Series 2009C bonds resulted in a loss of $700K, the majority of which was recorded to supplies and other expense in 2015.

Letters of Credit

Payment on each of the variable rate demand revenue bonds is also collateralized by a letter of credit. The letter of credit that support the Series 2009D bonds expires in June 2017. The letter of credit that supports the 2009E bonds expires in December 2018. The letters of credit that support the Series 2010A and Series 2010B bonds expire in November 2020 and November 2018, respectively, and the letters of credit that support the Series 2011A and Series 2011B bonds expire in May 2021 and May 2016, respectively. UCMC has received a commitment to renew the Letter of Credit Reimbursement Agreement for the Series 2011B bonds, and expects to renew or replace the letter of credit prior to its expiration. The letters of credit are subject to certain restrictions, which include financial ratio requirements and consent to future indebtedness. The most restrictive financial ratio is to maintain a debt service coverage ratio of 1.25:1. UCMC was in compliance with all applicable debt covenants at June 30, 2015.

Payment on each of the IEFA bonds is collateralized by a letter of credit maturing November 2017. The letter of credit is subject to certain restrictions, which include financial ratio requirements. The most restrictive financial ratio is to maintain a debt service coverage ratio of 1.75:1. UCMC was in compliance with all applicable debt covenants at June 30, 2015.

Included in UCMC’s debt is $77,700 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 1 and 3 years, beginning after a grace period of at least one year, 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.

UCMC paid interest, net of capitalized interest, of approximately $33,600 and $33,500 in 2015 and 2014, respectively.

UCMC has a $40,000 line of credit from a commercial bank. As of June 30, 2015 and 2014, no amount was outstanding under this line.

(in thousands of dollars)

9. Commitments

Leases

UCMC has capital and noncancelable operating leases for certain buildings and equipment. Future minimum payments required under noncancelable operating and capital leases as of June 30 are as follows:

	Operating	Capital
2016	$ 2,249	$ -
2017	698	-
2018	712	-
2019	727	-
2020 and thereafter	5,678	-
Total minimum lease payments	$ 10,064	-
Less - Amount representing interest		-
Present value of net minimum capital lease payments		$ -

The amount of total assets capitalized under these leases at both June 30, 2015 and June 30, 2014 is $2,300 with related accumulated depreciation of $2,300 and $2,000, respectively. Rental expense was approximately $5,600 and $5,800 for the years ended June 30, 2015 and 2014, respectively, including a $500 annual rental of a parking garage from the University.

10. Insurance

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, 2015 and 2014 was $5,000 per claim and unlimited in the aggregate. Claims in excess of $5,000 are subject to an additional self-insurance retention limited to $12,500 per claim and $22,500 in aggregate.

The estimated liability for medical malpractice self-insurance 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 risk-adjusted rate commensurate with the duration of anticipated payments. These inputs to the fair value estimate of the liability are considered Level 2 in the fair value hierarchy.

A comparison of the estimated liability for incurred malpractice claims (filed and not filed) and net assets for the combined University and UCMC self-insurance program as of June 30, 2015 and 2014, is presented below:

(in thousands of dollars)

	2015	2014
Actuarial present value of self-insurance liability for medical malpractice	$ 250,444	$ 238,552
Total assets available for claims	$ 351,828	$ 332,592

If the present-value method were not used, the ultimate liability for medical malpractice self-insurance claims would be approximately $43,400 higher at June 30, 2015. The interest rate assumed in determining the present value was 4.25% for 2015 and 2014. The Medical Center has recorded its pro-rata share of the malpractice self-insurance liability as required under ASU 2010-24 in the amount of $112,700 and $115,400 at June 30, 2015 and June 30, 2014, 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 2016, the Medical Center expense will be $12,800 related to malpractice insurance.

UCMC designated $16,400 and $17,100 as of June 30, 2015 and 2014, respectively, as a workers' compensation self-insurance reserve trust fund. The self-insurance program investments consist of approximately 60% bonds and 40% marketable equities. The specifically identified claim requirements and actuarially determined reserve requirements for unreported workers' compensation claims were $8,200 as of June 30, 2015 and 2014. The University also charges UCMC for its portion of other commercial insurance and self-insurance costs.

11. Pension Plans

Active Plans

A majority of UCMC's personnel participate in the University's defined benefit and contribution pension plan. 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 on an actuarially recommended basis. UCMC recognizes its share of net periodic pension cost as expense and any difference in the contribution amount as a transfer of unrestricted net assets. The adjustment to net assets was an increase of $1,000 for 2015 and a decrease of $1,000 for 2014. Contributions of $32,500 were made in the fiscal years ended June 30, 2015 and 2014. UCMC expects to make contributions of $32,500 for the fiscal year ended June 30, 2016 that will be entirely expensed as net periodic pension costs.

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 $7,400 and $6,700 for the years ended June 30, 2015 and 2014, respectively.

(in thousands of dollars)

Plan Name	EIN	Contributions of UCMC 2015	Contributions of UCMC 2014
University of Chicago Retirement Income Plan for Employees	36-2177139-002	$ -	$ 7,920
University of Chicago Pension Plan for Staff Employees	36-2177139-003	32,500	24,580
		$ 32,500	$ 32,500

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

	2015	2014
Projected benefit obligation	$ 954,886	$ 916,791
Fair value of plan assets	695,869	671,793
Deficit of plan assets over benefit obligation	$ (259,017)	$ (244,998)

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

	2015	2014
Discount rate	4.5 %	4.3 %
Expected return on plan assets	6.5 %	6.5 %
Rate of compensation increase	3.5 %	3.5 %

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

	2015	2014
Domestic equities	25 %	28 %
International equity	24 %	16 %
Fixed income	51 %	56 %
	100 %	100 %

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.

Total benefits and plan expenses paid by the plan were $40,100 and $39,300 for the fiscal years ended June 30, 2015 and 2014, respectively.

Expected future benefit payments excluding plan expenses are as follows:

(in thousands of dollars)

Fiscal Year	
2016	74,746
2017	50,099
2018	52,716
2019	54,767
2020	57,246
2021-2025	327,528

Certain UCMC personnel participate in a contributory pension plan. Under this plan, UCMC and plan participants make annual contributions to purchase annuities equivalent to retirement benefits earned. UCMC's pension expense for this plan was $5,200 and $5,000 for the years ended June 30, 2015 and 2014, respectively.

Curtailed and Frozen Plan

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

Components of net periodic pension cost and other amounts recognized in unrestricted net assets include the following:

	Years Ended June 30,	
	2015	**2014**
Net periodic pension cost		
Interest cost	$ 2,293	$ 2,485
Expected return on plan assets	(3,080)	(2,794)
Amortization of unrecognized net actuarial loss	617	675
Net periodic pension cost	(170)	366
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Liability for pension benefits	(8,192)	1,337
Total recognized in net periodic pension cost and unrestricted net assets	$ 8,022	$ (971)

The following tables set forth additional required pension disclosure information for this plan:

(in thousands of dollars)

	Years Ended June 30, 2015	Years Ended June 30, 2014
Change in projected benefit obligation		
Benefit obligation at beginning of year	$ 56,410	$ 54,090
Interest cost	2,293	2,485
Net actuarial loss (gain)	5,382	3,237
Benefits paid	(3,767)	(3,402)
	60,318	56,410
Change in plan assets		
Fair value of plan assets at beginning of year	53,151	48,360
Actual return on plan assets	(347)	6,693
Employer contribution	3,000	1,500
Benefits paid	(3,767)	(3,402)
	52,037	53,151
Funded status at end of year	$ (8,281)	$ (3,259)

Amounts recognized in the balance sheet are included in noncurrent liabilities.

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

	2015	2014
Discount rate	4.3 %	4.2 %
Expected return on plan assets	6.0 %	6.0 %
Rate of compensation increase	N/A	N/A

Weighted average asset allocations for plan assets are as follows:

	2015	2014
Cash	3 %	1 %
Fixed income	58	56
Domestic equities	29	29
International equities	10	14
	100 %	100 %

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

UCMC expects to make contributions of $1,500 to the plan in the fiscal year ending June 30, 2016.

(in thousands of dollars)

Expected future benefit payments are:

Fiscal Year		
2016	$	3,758
2017		3,767
2018		3,780
2019		3,798
2020		3,863
2021-2025		19,358

12. Concentration of Credit Risk

As a hospital, UCMC is potentially subject to concentration of credit risk from patient accounts receivable and certain investments. Investments, which include government and agency securities, stocks, corporate bonds, real assets, absolute return, and private equities, are not concentrated in any corporation or industry or with any single counter-party. UCMC receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and Blue Cross. Medicaid approximated 19% and 17% of the Medical Center's net revenue for 2015 and 2014, respectively. Medicaid represented 26% and 21% of UCMC's net accounts receivable at June 30, 2015 and 2014, respectively. Management does not anticipate any collection risk related to the Medicaid accounts receivable at June 30, 2013. UCMC has not historically incurred any significant credit losses outside the normal course of business.

13. Pledges

Pledges receivable at June 30 are shown below:

	2015	**2014**
Unconditional promises expected to be collected in:		
Less than one year	$ 1,102	$ 2,420
One year to five years	1,522	2,142
More than five years		-
	2,624	4,562
Less unamortized discount (discount rate 5.5%)	-	(71)
Total	$ 2,624	$ 4,491

(in thousands of dollars)

14. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	2015	2014
Pediatric health care	$ 19,414	$ 19,541
Adult health care	55,728	56,505
Educational and scientific programs	5,059	4,774
Capital and other purposes	5,908	7,134
Total	$ 86,109	$ 87,954

Income from permanently restricted net assets is restricted for:

	2015	2014
Pediatric health care	$ 1,855	$ 1,855
Adult health care	1,935	1,925
Educational and scientific programs	4,312	4,312
Total	$ 8,102	$ 8,092

15. Functional Expenses

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

	2015	2014
Health care services	$ 1,359,252	$ 1,285,218
General and administrative	99,897	92,922
Total	$ 1,459,149	$ 1,378,140

16. Contingencies

UCMC is subject to complaints, claims and litigation which have risen in the normal course of business. In addition, UCMC is subject to reviews by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. While the outcome of these suits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of UCMC.