THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

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KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
The University of Chicago Medical Center:

We have audited the accompanying consolidated financial statements of The University of Chicago Medical Center, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Chicago Medical Center as of June 30, 2019 and 2018, and the results of its consolidated operations, changes in its consolidated net assets and of its consolidated cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(b) to the consolidated financial statements, The University of Chicago Medical Center adopted new accounting guidance for Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customer (Topic 606)* and ASU No. 2016-14*, Presentation of Financial Statements for Not-for-profit Entities*. Our opinion is not modified with respect to these matters.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2019 supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
November 20, 2019

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	174,122	211,751
Patient accounts receivable, net of estimated uncollectibles of $160,307 in 2018		399,130	347,870
Current portion of investments limited to use		19,292	8,872
Current portion of malpractice self-insurance receivable		15,266	17,491
Current portion of pledges receivable		1,434	1,052
Prepaids, inventory, and other current assets		155,424	111,563
Total current assets		764,668	698,599
Investments limited to use, less current portion		1,243,928	1,200,413
Property, plant, and equipment, net		1,567,756	1,602,751
Pledges receivable, less current portion		1,438	1,435
Malpractice self-insurance receivable, less current portion		85,361	86,319
Other assets, net		54,891	52,542
Total assets	$	3,718,042	3,642,059
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	241,248	251,424
Current portion of long-term debt		18,098	17,323
Current portion of other long-term liabilities		725	208
Estimated third-party payor settlements		263,259	214,184
Current portion of malpractice self-insurance liability		15,266	17,491
Due to University of Chicago		30,769	36,807
Total current liabilities		569,365	537,437
Other liabilities:			
Workers' compensation self-insurance liabilities, less current portion		6,396	5,782
Malpractice self-insurance liability, less current portion		128,462	127,154
Long-term debt, less current portion		987,858	1,011,129
Interest rate swap liability		136,186	104,412
Other long-term liabilities, less current portion		40,302	35,878
Total liabilities		1,868,569	1,821,792
Net assets:			
Without donor restrictions		1,736,382	1,708,799
With donor restrictions		113,091	111,468
Total net assets		1,849,473	1,820,267
Total liabilities and net assets	$	3,718,042	3,642,059

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, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues:			
Net patient service revenue	$	2,121,969	2,183,011
Provision for doubtful accounts		—	182,894
Net patient service revenue after provision for doubtful accounts		2,121,969	2,000,117
Other operating revenues and net assets released from restrictions used for operating purposes		265,533	211,898
Total operating revenues		2,387,502	2,212,015
Operating expenses:			
Salaries, wages, and benefits		992,398	943,550
Supplies and other		767,042	679,490
Physician services		283,142	280,780
Insurance		28,982	46,690
Interest		44,456	43,924
Medicaid provider tax		66,640	59,773
Depreciation and amortization		128,198	125,032
Total operating expenses		2,310,858	2,179,239
Operating revenue in excess of expenses		76,644	32,776
Nonoperating gains and losses:			
Investment income, net		60,092	65,503
Change in fair value of nonhedged derivative instruments		(2,003)	2,356
Derivative ineffectiveness on hedged derivative instruments		1,190	(62)
Other, net		7,706	604
Revenue and gains in excess of expenses and losses		143,629	101,177
Other changes in net assets without donor restrictions:			
Net asset transfers to University of Chicago, net		(71,750)	(71,750)
Change in accrued pension benefits other than net periodic benefit costs		(14,787)	(7,853)
Effective portion of change in valuation of derivatives		(29,233)	24,635
Net assets released from restriction for capital purposes		462	—
Distributions and other, net		(738)	(449)
Increase in net assets without donor restrictions	$	27,583	45,760

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Net assets without donor restrictions:			
Revenue and gains in excess of expenses and losses	$	143,629	101,177
Net asset transfers to University of Chicago, net		(71,750)	(71,750)
Change in accrued pension benefits other than net periodic benefit cost		(14,787)	(7,853)
Effective portion of change in valuation of derivatives		(29,233)	24,635
Net assets released from restrictions for capital purposes		462	—
Distributions and other, net		(738)	(449)
Increase in net assets without donor restrictions		27,583	45,760
Net assets with donor restrictions:			
Contributions		4,443	5,090
Net assets released from restrictions used for operating purposes		(7,072)	(7,295)
Investment income		4,714	5,767
Net assets released from restrictions for capital purposes		(462)	—
Increase in temporarily restricted net assets		1,623	3,562
Change in net assets		29,206	49,322
Net assets at beginning of year		1,820,267	1,770,945
Net assets at end of year	$	1,849,473	1,820,267

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	29,206	49,322
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net change in unrealized gains and losses on investments		(14,057)	544
Net asset transfers to University of Chicago		71,750	71,750
Restricted contributions and investment return		(9,157)	(10,857)
Realized gains on investments		(31,705)	(52,157)
Net change in valuation of derivatives		31,774	(25,038)
Change in accrued pension benefits other than net period benefit cost and other		14,787	7,853
Provision for doubtful accounts		—	182,824
Net assets released from restrictions for operations		7,072	7,295
Depreciation and amortization		128,198	125,032
Changes in assets and liabilities:			
Patient accounts receivable, net		(51,260)	(98,594)
Other assets		(43,412)	(21,269)
Accounts payable and accrued expenses		(11,694)	33,972
Due to University of Chicago		(6,038)	8,082
Estimated settlements with third-party payors		49,075	36,003
Self-insurance liabilities		(303)	(8,229)
Other liabilities		(9,846)	(16,434)
Net cash provided by operating activities		154,390	290,099
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(90,555)	(100,325)
Change in construction payables		1,518	(5,143)
Purchases of investments		(437,136)	(451,471)
Sales of investments		428,963	517,379
Net cash used in investing activities		(97,210)	(39,560)
Cash flows from financing activities			
Proceeds from issuance of long-term debt, including bond premium		—	61,220
Payments on long-term obligations		(25,144)	(65,917)
Payments on revolving credit facility		—	(3,000)
Payments for bond issuance costs		—	(349)
Net asset transfers to University of Chicago, net		(71,750)	(71,750)
Net assets released from restriction for operations		(7,072)	(7,295)
Restricted contributions and investment return		9,157	10,857
Net cash used in financing activities		(94,809)	(76,234)
Net (decrease) increase in cash and cash equivalents		(37,629)	174,305
Cash and cash equivalents:			
Beginning of year		211,751	37,446
End of year	$	174,122	211,751

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

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

On October 1, 2016, UCMC acquired Ingalls Health System (IHS) through an affiliation and member substitution. As a result of this transaction, IHS became a wholly owned subsidiary of UCMC through the newly created CHHD of UCMC.

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

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

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

(b) New Accounting Pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 represents phase 1 of FASB's not-for-profit financial reporting project, and results reduce the number of net asset classes, require expense presentation by functional and natural classification, require quantitative and qualitative information in liquidity, retain the option to present the cash flow statement on a direct or indirect method, as well as include various other additional disclosure requirements. The requirements of this statement were effective for the System for the year ending June 30, 2019. The impact on financial statement presentation and disclosure includes previous classifications as permanently and temporarily restricted net assets were combined and now presented as net assets with donor restrictions in concurrence with the standard. Additional disclosures were modified to reflect this classification change along with disclosure of liquidity of assets and current liabilities and to disclose the operating expenses by function.

On July 1, 2018, the System adopted ASU No. 2014-09 following the modified retrospective method of application for the adoption of the guidance to all contracts existing on July 1, 2018, resulting in no impact to the System's existing revenue streams. At the adoption of ASU No. 2014-09, the majority of what was previously classified as the provision for bad debts (which would have approximated $201,012 for the year ended June 30, 2019) is now reflected as an implicit price concession (as defined in ASU No. 2014-09) and, therefore, is included as a reduction to net patient service revenue in the accompanying 2019 consolidated statements of operations and changes in net assets without donor restriction. Such amounts were also reclassified in the 2019 consolidated statements of cash flows to the change in patient accounts receivable. For changes in credit issues not assessed at the date of service, the System will prospectively recognize those amounts as bad debt expense in operating expenses in the accompanying consolidated statements of operations and changes in net assets without donor restriction. For periods prior to the adoption of ASU No. 2014-09, the provision for bad debts has been presented consistent with previous presentation prior to adoption of the new ASU.

The System uses a portfolio approach to apply the new model to classes of payors with similar characteristics and analyzes cash collection trends over an appropriate collection look-back period depending on the payor. The System completed an initial assessment of the impact of the new standard on various reimbursement programs that represent variable consideration and concluded that accounting for these programs under the new standard is substantially consistent with the System's historical accounting practices.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires entities to recognize all leased assets as assets on the consolidated balance sheet with a corresponding liability. Entities will also be required to present additional disclosures as to the nature and extent of leasing activities. The System implemented the new standard effective July 1, 2019, which is expected to result in the establishment of a right of use asset and lease liability of approximately $27,700 to $30,900 in the consolidated balance sheet.

(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 net 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, 2019 and 2018, 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.

(g) Inventory

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

(h) Investments

Investments are classified as trading securities. As such, investment income or loss (including realized or 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, 2019 and 2018, 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, 2019 and 2018 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 of Trustees (the Board) for future capital improvements and other specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes. Investments limited as to use also include investments held under swap collateral posting requirements, investments under the workers' compensation self-insurance trust funds, and investments whose use is restricted by donors. Investments limited as to use are reported as net assets without donor restrictions. Investments whose use is restricted by donors are reported as net assets with donor restrictions.

(Continued)

(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 balance sheet at their respective fair values.

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

(k) Property, Plant, and Equipment

Property, plant, and equipment are reported on the basis of cost, less accumulated depreciation and amortization. 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 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.

(l) Asset Retirement Obligation

The System recognizes a liability for the fair value of a legal obligation to perform asset retirement activities in which the timing or method of settlement 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 System’s asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. The System’s obligation to remove asbestos was estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable.

(Continued)

(m) Other Assets and Liabilities

Goodwill and intangible assets principally relate to physician practice acquisitions. Intangible assets are being amortized over a period, generally not to exceed five years. Intangible assets, net of accumulated amortization, were $210 and $438 for the years ended June 30, 2019 and 2018, respectively, and are included within other assets, net in the consolidated balance sheets. The System follows the provisions of ASC Subtopic 958-805, *Not-for-Profit Entities – Business* Combinations, which requires goodwill to be reviewed for impairment at least annually using a two-step test. Goodwill at June 30, 2019 and 2018 was $2,906 and $2,412, respectively, and is included in other assets, net within the consolidated balance sheets. No goodwill impairment was recorded by the System in 2019 and 2018.

(n) Net Assets

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

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

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

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

(Dollars in thousands)

The description of amounts classified as donor restricted net assets (endowments only) as of June 30, 2019 and 2018 is as follows:

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

		Perpetual	Time restricted by donor	Time restricted by law	2018 Total
Restricted for pediatric healthcare	$	3,951	—	17,478	21,429
Restricted for adult healthcare		4,320	—	57,114	61,434
Restricted for educational and scientific programs		9,216	—	2,788	12,004
	$	17,487	—	77,380	94,867

The endowment component of net assets without donor restrictions comprises of amounts designated by the Board to function as endowment, which amounted to $923,571 and $824,607 as of June 30, 2019 and 2018, respectively.

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

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

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

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

The System recognizes net operating 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. As provided for under the guidance, 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. Net operating revenues are recognized in the amounts to which it expects to be entitled, which are the transaction prices allocated to the distinct services.

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

(ii) Premium and Capitation Revenue

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, 2019.

(iii) Allowance for Bad Debts

As a result of adopting ASU No. 2014-09 as described, The System continues to maintain an allowance for bad debts related to performance obligations satisfied prior to July 1, 2018. The System provided for an allowance against patient accounts receivable for amounts that could become uncollectible. The System estimated this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. These various factors that can impact the collection, trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of copayments to be made by patients with insurance coverage and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends the estimation process used by the System. The System recorded a provision for bad debts in the period of services on the basis of past experience, which has historically indicated that many patients are unresponsive or are otherwise unwilling to pay the portion of their bill for which they are financially responsible. There were no revisions to the allowance for doubtful accounts in 2019.

(iv) 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 net patient 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 these government programs.

(v) Third Party Settlements

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

(Continued)

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

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer 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 net patient service revenues of $190 and $3,506, for the years ended June 30, 2019 and 2018, respectively.

(q) Hospital Assessment Program/Medicaid Provider Tax

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

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

In 2019, reimbursement under the assessment programs resulted in a net increase of $65,962 in operating income, which includes $132,602 in Medicaid payments included in net patient service revenue offset by $66,640 in Medicaid provider tax expense. In 2018, reimbursement under the assessment programs resulted in a net increase of $64,065 in operating income, which includes $123,838 in Medicaid payments included in net patient service revenue offset by $59,773 in Medicaid provider tax expense.

(Continued)

(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 consolidated 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, 2019 and 2018, the System does not have an asset or liability recorded for unrecognized tax positions.

UCMC and a substantial number of its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The University of Chicago Medicine Care Network, LLC and several entities within CHHD, including Ingalls Captive Insurance, Ltd (ICI), Medcentrix, Inc. (MCX), and Ingalls Provider Group (IPG) are taxable entities under applicable sections of the Code.

Deferred income taxes on taxable entities 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, 2019 and 2018, ICI has net deferred tax assets primarily relating to net operating losses (NOL) of $244 and $398, respectively, which are included within prepaids, inventory, and other current assets in the consolidated balance sheet. A net valuation allowance of $1,129 and $1,521 against the gross ICI deferred tax asset of $1,373 and $1,919, respectively, were considered necessary, as management believed that it was not more likely than not that the results of future operations would generate sufficient taxable income to realize a portion of the deferred tax assets. IPG has an NOL of $88 and $153 at June 30, 2019 and 2018, respectively; however, it has a full valuation allowance as future realization of the NOL is not likely. As of June 30, 2019 and 2018, MCX has an NOL of $17,074 and $15,206, respectively; however, it has a full valuation allowance as future realization of the NOL is not likely. Income tax expense for the year ended June 30, 2019 and 2018 were $153 and $43, respectively, and are related to ICI. This amount is recorded within supplies and other on the consolidated statement of operations and changes in net assets without donor restrictions.

(s) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 consolidated financial statement presentation. As a result of the adoption of ASU No. 2016-14, the way the System reports classes of net assets changed from the previously required three classes to two. As of June 30, 2018, temporarily restricted net assets of $93,981 and permanently restricted net assets of $17,487 have been combined for presentation as net assets with donor restrictions for 2019.

(Dollars in thousands)

(t) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the System evaluated events and transactions through November 20, 2019, the date the consolidated financial statements were issued noting no subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements other than the item noted in note 16(c).

(3) Financial Assets and Liquidity Resources

As of June 30, 2019 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:

Financial assets:		
Cash and cash equivalents	$	174,122
Patient accounts receivable		399,130
Total financial assets available within one year		573,252
Liquidity resources:		
Bank lines of credit		50,000
Total financial assets and liquidity resources available within one year	$	623,252
Current liabilities:		
Accounts payable and accrued expenses	$	241,248
Estimated third-party payor settlements		263,259
Current portion of long-term debt		18,098
Other current liabilities		46,760
Total current liabilities	$	569,365

The System's cash flows have seasonal variations during the year attributable to patient service reimbursement from the State of Illinois, payments from patients and insurance. As discussed in note 10(d), to manage liquidity, the System maintains a line of credit with a financial institution to potentially draw funds as needed during the year to manage cash flows. As of June 30, 2019, amounts outstanding under the line of credit facility amounted to $0. In addition, as of June 30, 2019, the System has $923,571 in funds functioning as endowment and $213,383 of CHHD investments, all available for general expenditure upon Board approval, of which $761,284 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 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 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, 2019 and 2018, the University charged UCMC $31,036 and $28,706, respectively, for utilities, security, telecommunications, insurance, and overhead.

The University's Division of Biological Sciences provides physician services to UCMC. In 2019 and 2018, UCMC recorded $259,650 and $252,587, 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 2019 and 2018 for this support.

(5) Net 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.

(Continued)

(Dollars in thousands)

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, 2013 have been audited by the Medicare fiscal intermediary. CHHD's Medicare reimbursement reports through September 30, 2013 have been audited by the Medicare fiscal intermediary.

(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 2018 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.

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

		2019	2018
Medicare	$	597,322	532,943
Medicaid		463,259	360,813
Managed care		1,054,753	1,094,905
Patients and other		6,635	11,456
Net patient service revenue after provision for doubtful accounts	$	2,121,969	2,000,117

(Dollars in thousands)

The mix of receivables from patients and third-party payors as of June 30, 2019 and 2018 are as follows:

	2019	2018
Medicare	19.0 %	18.2 %
Medicaid	35.1	28.5
Managed care	44.6	50.5
Patients and other	1.3	2.8
	100.0 %	100.0 %

A summary of the System's utilization percentages based upon gross patient service revenue is as follows:

	2019	2018
Medicare	39.2 %	39.0 %
Medicaid	25.1	23.1
Managed care	33.4	35.4
Patients and other	2.3	2.5
	100.0 %	100.0 %

(Continued)

(Dollars in thousands)

(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, 2019 and 2018:

		2019	2018
Uncompensated care:			
Medicaid sponsored indigent healthcare	$	70,991	100,417
Medicare sponsored indigent healthcare – cost report		162,160	150,818
Medicare sponsored indigent healthcare – physician services		21,751	2,703
Total uncompensated care		254,902	253,938
Charity care		33,266	26,967
		288,168	280,905
Unreimbursed education and research:			
Education (unaudited)		59,528	70,983
Research (unaudited)		48,000	48,000
Total unreimbursed education and research		107,528	118,983
Total community benefits	$	395,696	399,888

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 2019.

(Dollars in thousands)

(7) Investments Limited as to Use

The composition of investments limited as to use is as follows at June 30 2019 and 2018:

	2019				
	Separately invested	TRIP	Other	Total	2018
Investments carried at fair value:					
Cash equivalents	$ 2,292	9,922	373	12,587	12,928
Global public equities	86,866	309,503	—	396,369	346,269
Private debt	—	48,412	—	48,412	41,107
Private equity:					
U.S. venture capital	5,795	62,842	—	68,637	54,507
U.S. corporate finance	—	37,173	—	37,173	31,321
International	5	66,517	—	66,522	54,328
Real assets:					
Real estate	—	59,443	—	59,443	55,485
Natural resources	—	63,373	—	63,373	67,378
Absolute return:					
Equity oriented	—	60,733	—	60,733	90,477
Global macro/relative value	—	48,038	—	48,038	52,934
Multistrategy	—	65,510	—	65,510	67,111
Credit oriented	—	52,344	—	52,344	50,245
Protection oriented	—	18,402	—	18,402	16,816
Fixed income:					
U.S. Treasuries, including TIPS	—	58,529	—	58,529	55,883
Other fixed income	162,450		718	163,168	164,949
Other:					
Beneficial interests in trust	—	—	9,303	9,303	9,316
Funds in trust	—	—	34,677	34,677	38,231
Total investments	$ 257,408	960,741	45,071	1,263,220	1,209,285

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 they are available to meet current liabilities. Investments are presented in the consolidated financial statements as follows:

	2019	2018
Current portion of investments limited to use	$ 19,292	8,872
Investments limited to use, less current portion	1,243,928	1,200,413
Total investments limited to use	$ 1,263,220	1,209,285

(Dollars in thousands)

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

	2019			
	UCMC	CHHD	Total	2018
Investments limited as to use:				
By the board for capital improvements/restrictions by donors	$ 222,972	44,830	267,802	295,835
Funds held by custodian/trustee under indenture agreements	185	—	185	164
Funds held by trustee for self-insurance	4,503	16,239	20,742	32,413
Collateral for interest rate swap	13,750	—	13,750	—
TRIP investments	782,884	177,857	960,741	880,873
Total investments limited to use	$ 1,024,294	238,926	1,263,220	1,209,285

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

	2019			
	UCMC	CHHD	Total	2018
Interest and dividend income, net	$ 12,282	2,048	14,330	13,890
Realized gains on sales of securities, net	25,884	5,821	31,705	52,157
Change in unrealized gains and losses on securities, net	10,069	3,988	14,057	(544)
	$ 48,235	11,857	60,092	65,503

Investment income, net within the System's restricted investments was $4,714 and $5,767 for the year ended June 30, 2019 and 2018, respectively.

Outside of TRIP, UCMC also invests in private equity limited partnerships. As of June 30, 2019, UCMC has commitments of $1,700 remaining to fund private equity limited partnerships.

Fair Value of Financial Instruments

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

The carrying amount reported in the consolidated statements of financial position for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, and estimated payables under third-party reimbursement programs. Cash equivalent investments include cash equivalents and fixed-income investments, with maturities of less than 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 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.

Funds in trust investments consist primarily of project construction funds and workers' compensation trust funds. Funds in trust comprise 1% cash and cash equivalents, 99% fixed income investments and 0% equity investments at June 30, 2019 and comprised 4% cash and cash equivalents, 88% fixed income investments, and 8% equity investments at June 30, 2018.

(Dollars in thousands)

The System believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2019 and 2018. 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, 2019 and 2018 were as follows:

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2019 Total fair value
Cash and cash equivalents	$	174,122	—	—	174,122
Investments:					
Cash equivalents		12,587	—	—	12,587
Global public equities		166,427	—	—	166,427
Private equity – U.S. Venture Capital		5,302	—	—	5,302
Real assets:					
Real estate		16,196	—	—	16,196
Natural resources		9,660	—	—	9,660
Absolute return:					
Global macro/relative value		8,836	—	—	8,836
Fixed income:					
U.S. Treasuries, including TIPS		58,529	—	—	58,529
Other fixed income		163,168	—	—	163,168
Restricted investments		—	—	9,303	9,303
Funds in trust		18,438	16,239	—	34,677
Investments measured at net asset value[1]		—	—	—	778,535
Total investments at fair value		633,265	16,239	9,303	1,437,342
Other assets		7,385	—	—	7,385
Total assets at fair value	$	640,650	16,239	9,303	1,444,727
Liabilities					
Interest rate swap payable	$	—	136,186	—	136,186
Total liabilities at fair value	$	—	136,186	—	136,186

(Continued)

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

Assets		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2018 Total fair value
Cash and cash equivalents	$	211,751	—	—	211,751
Investments:					
Cash equivalents		12,928	—	—	12,928
Global public equities		173,926	13,549	—	187,475
Private equity – U.S.					
Venture Capital		5,613	—	—	5,613
Real assets:					
Real estate		14,533	—	—	14,533
Natural resources		9,326	—	—	9,326
Absolute return:					
Global macro/relative value		9,239	2,997	—	12,236
Fixed income:					
U.S. Treasuries, including TIPS		55,883	—	—	55,883
Other fixed income		164,949	—	—	164,949
Restricted investments		—	—	9,316	9,316
Funds in trust		7,632	30,599	—	38,231
Investments measured at net asset value[1]		—	—	—	698,795
Total investments at fair value		665,780	47,145	9,316	1,421,036
Other assets		6,590	—	—	6,590
Total assets at fair value	$	672,370	47,145	9,316	1,427,626
Liabilities					
Interest rate swap payable	$	—	104,414	—	104,414
Total liabilities at fair value	$	—	104,414	—	104,414

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 balance sheets.

During 2019, there were no transfers between investment Levels 1 and 2 or between Levels 2 and 3. The interest rate swap arrangement has inputs, which can generally be corroborated by market data and is, therefore classified within Level 2.

The following table presents activity for the year ended June 30, 2019 for assets measured at fair value using unobservable inputs classified in Level 3:

		Level 3 rollforward
Beginning fair value	$	9,316
Change in unrealized gains and losses, net		(13)
Ending fair value	$	9,303

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

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

(Dollars in thousands)

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

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

	Remaining life	Redemption terms	Redemption restrictions and terms
Private equity:			
Drawdown partnerships	1 to 21 years	Redemptions not permitted	N/A
Separate accounts	N/A	Daily with notice period of 1 day	None
Partnerships	N/A	Semiannual with notice period of 90 days	A portion of capital is held in side pockets with no redemptions permitted
Real estate:			
Drawdown partnerships	1 to 16 years	Redemptions not permitted	N/A
Separate accounts	N/A	Daily with notice period of 5 days	None
Natural resources:			
Drawdown partnerships	1 to 17 years	Redemptions not permitted	N/A
Commingled funds	N/A	Daily with notice period of 1 day	None

	Remaining life	Redemption terms	Redemption restrictions and terms
Absolute return:			
Commingled funds	N/A	Daily to triennial with notice periods of 1 to 122 days	Lock-up provisions for up to 3 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 5 years; some investments have a portion of capital held in side pockets with no redemptions permitted
Fixed income:			
Commingled funds	N/A	Weekly to monthly with notice periods of 5 to 10 days	None
Separate accounts	N/A	Daily to monthly with notice periods of 1 to 30 days	None
Funds in trust	N/A	Daily	None

(8) Endowments

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

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

The System has beneficial interests in trusts. The System has recorded its share of the principal of the trusts as net assets with donor restrictions. Distributions from the trusts are recorded within net assets without restrictions if unrestricted; otherwise, they are classified as net assets with donor restrictions until appropriated for expenditure. In some instances the historical costs basis of the funds is not available as the System received the shares in 1929. The fair value of assets associated with individual donor-restricted endowment funds may fall below the amount of the original donation as a result of unfavorable market conditions. There were no such deficiencies at June 30, 2019 and 2018, respectively.

(Dollars in thousands)

The System has the following donor-restricted endowment activities during the years ended June 30, 2019 and 2018 delineated by net asset class:

	2019		
	Without donor restrictions	**With donor restrictions**	**Total**
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	$ 12,282	935	13,217
Net appreciation (realized and unrealized) on investments	35,953	3,779	39,732
Investment return, net of payout	48,235	4,714	52,949
Endowment payout	(41,314)	(3,900)	(45,214)
Net investment return	6,921	814	7,735
Other changes in endowment investments:			
Gifts and pledge payments received in cash	89,042	13	89,055
Other changes	3,001	—	3,001
Total other changes in endowment investments	92,043	13	92,056
Net change in endowment investments	98,964	827	99,791
Endowment investments at:			
Beginning of year	824,607	94,867	919,474
End of year	$ 923,571	95,694	1,019,265
Investments by type of fund:			
Donor-restricted “true” endowment:			
Historical gift value	$ —	17,487	17,487
Appreciation	—	78,207	78,207
Board-designated “funds functioning as endowment"	923,571	—	923,571
Total – As above	$ 923,571	95,694	1,019,265

(Continued)

(Dollars in thousands)

	2018		
	Without donor restrictions	**With donor restrictions**	**Total**
Changes in the fair value of endowment investments:			
Investment return:			
Endowment yield (interest and dividends)	$ 10,748	719	11,467
Net appreciation (realized and unrealized) on investments	37,964	5,081	43,045
Investment return, net of payout	48,712	5,800	54,512
Endowment payout	(41,431)	(4,819)	(46,250)
Net investment return	7,281	981	8,262
Other changes in endowment investments:			
Gifts and pledge payments received in cash	—	1,234	1,234
Other changes	3,333	—	3,333
Total other changes in endowment investments	3,333	1,234	4,567
Net change in endowment investments	10,614	2,215	12,829
Endowment investments at:			
Beginning of year	813,993	92,652	906,645
End of year	$ 824,607	94,867	919,474
Investments by type of fund:			
Donor-restricted “true” endowment:			
Historical gift value	$ —	17,487	17,487
Appreciation	—	77,380	77,380
Board-designated “funds functioning as endowment"	824,607	—	824,607
Total – As above	$ 824,607	94,867	919,474

Investment and Spending Policies

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

(Dollars in thousands)

For endowments invested in TRIP, the Board of Trustees of the System has adopted the University's method to be used to appropriate endowment funds for expenditure, including following the University's payout formula. The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments, lagged by one year, is available each year for expenditure in the form of endowment payout. The exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5.5% for the fiscal years ended June 30, 2019 and 2018. 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:

		2019	2018
Land and land rights	$	55,610	55,587
Buildings and improvements		1,847,108	1,824,214
Equipment		717,720	686,998
Construction in progress		30,237	33,295
		2,650,675	2,600,094
Less accumulated depreciation		(1,082,919)	(997,343)
Total property, plant, and equipment, net	$	1,567,756	1,602,751

The System's net property, plant, and equipment cost includes $7,800 and $8,300 at June 30, 2019 and 2018 representing assets under capital leases with the University. 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 $18,900 and $20,700 for 2019 and 2018, respectively, which represents the unamortized portion of initial lease payments made to the University.

A clinic in the Streeterville area of Chicago is under construction. Spending for this clinic during fiscal year 2019 was $3,800 with a total budget of $17,100. Capitalized interest costs in 2019 and 2018 were approximately $400 and $1,100, respectively. Construction in progress consists of various routine capital improvements and renovation projects. As of June 30, 2019, the System had total contractual commitments associated with ongoing capital projects of approximately $18,000.

(Dollars in thousands)

(10) Long-Term Debt

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

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

Long-term debt at June 30, 2019 and 2018 consists of the following:

	Fiscal year maturity	Interest rate	2019	2018
University of Chicago Medical Center:				
Fixed rate:				
Illinois Finance Authority:				
Series 2009A and 2009B, 2009B partially legally defeased in 2017	2027	5.0%	$ 83,575	94,630
Series 2009D1 and 2009D2 (Synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2009E1 and 2009E2 (Synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2010A and 2010B (Synthetically fixed rate)	2045	3.9	92,500	92,500
Series 2011A and 2011B (Synthetically fixed rate)	2045	3.9	92,500	92,500
Series 2012A	2037	4.7	60,495	62,595
Series 2015A	2029	5.0	21,895	21,895
Series 2016A	2027	5.0	22,830	22,830
Series 2016B	2042	5.0	164,490	164,490
Teachers Insurance and Annuity Association of America (TIAA)				
Series 2017A	2047	4.4	30,000	30,000
Unamortized premium			24,119	26,265
Total fixed rate			732,404	747,705
Variable rate:				
Series 2013A	2020	3.0	69,801	71,159
Illinois Educational Facilities Authority (IEFA)	2038	1.6	66,029	69,353
Total variable rate			135,830	140,512
Unamortized debt issuance costs			(6,030)	(6,630)
Less current portion of long-term debt			(15,208)	(14,513)
Total UCMC long-term portion of debt, less current portion			$ 846,996	867,074

(Dollars in thousands)

	Fiscal year maturity	Interest rate		2019	2018
UCMC Title Holding Corporation:					
Fixed rate:					
Brownfield Revitalization 40 – Promissory note A	2024	1.5%	$	4,850	4,850
Urban Development Fund XLVI – Promissory note A	2024	1.5		4,850	4,850
Urban Development Fund LI – Promissory note A	2024	1.8		6,500	6,500
Citi NMTC – QLICI	2032	1.2		3,476	3,476
Citi NMTC – QLICI	2032	1.2		1,620	1,620
URP QLICI – Loan A	2047	1.0		7,334	7,334
URP QLICI – Loan B	2047	1.0		2,666	2,666
SCORE QLICI – Loan A	2047	1.0		4,176	4,176
SCORE QLICI – Loan B	2047	1.0		1,704	1,704
CNI QLICI – Loan A	2047	1.0		3,455	3,455
CNI QLICI – Loan B	2047	1.0		1,545	1,545
Total UCMC Title Holding Corporation debt			$	42,176	42,176
Community Health and Hospital Division:					
Fixed Rate: Series 2013	2043	3.5–5.0%	$	60,145	60,915
Fixed Rate: Series 2017	2026	4.6		38,300	40,340
Unamortized debt fair value adjustment as part of acquisition				4,011	4,367
Unamortized debt issuance costs				(880)	(933)
Total debt and unamortized premiums (discount)				101,576	104,689
Less current portion of long-term debt				(2,890)	(2,810)
Total CHHD debt, excluding current portion			$	98,686	101,879
Total notes and bonds payable			$	1,005,956	1,028,452
Less current portion				(18,098)	(17,323)
Long-term debt, excluding current portion			$	987,858	1,011,129

(Dollars in thousands)

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

Year ending June 30:		
2020	$	18,098
2021		19,230
2022		21,510
2023		21,948
2024		21,938
Thereafter		882,012
	$	984,736

(a) UCMC Obligated Group

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.

(i) 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 supports the Series 2009D bonds expires in June 2022. The letter of credit that supports the 2009E bonds expires in July 2021. The letters of credit that support the Series 2010A and Series 2010B bonds expire in November 2020 and July 2021, respectively, and the letters of credit that support the Series 2011A and Series 2011B bonds expire in May 2021. Payment of each of the IEFA bonds is collateralized by a letter of credit maturing May 2022. The letters of credit are subject to certain restrictions, which include financial ratio requirements. The most restrictive financial ratio is to maintain a debt service coverage ratio of 1:25:1.

Included in UCMC's debt is $66,029 of commercial paper revenue notes and $325,000 of variable rate demand bonds. In the event that UCMC's remarketing agents are unable to remarket the bonds, the trustee of the bonds will tender them under the letters of credit. Scheduled repayments under the letters of credit are between zero and three years, beginning after a grace period of at least one year from the event, and bear interest rates different from those associated with the original bond issue. Any bonds tendered are still eligible to be remarketed. Bonds subsequently remarketed would be subject to the original bond repayment schedules.

(b) UCMC Title Holding Corporation

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

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

(c) Community Health and Hospital Division

(i) Recent Financing Activity

In December 2017, CHHD issued variable rate bonds, Series 2017, in the amount of $40,340. The Series 2017 bonds were initially sold to JPMorgan Chase Bank. In 2019, the Series 2017 bonds were restructured and now bear interest at a fixed rate until December 28, 2026 when they are subject to mandatory redemption.

(d) Lines of Credit

As of June 30, 2019, UCMC has a $50,000 line of credit from a commercial bank. As of June 30, 2019 and 2018, no amount was outstanding under this line. On September 24, 2019, UCMC renewed the line of credit with an expiration date of September 25, 2020 and the line of credit was increased to $100,000.

(Dollars in thousands)

(i) Other Debt Related Items

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

Year ending June 30:		
2020	$	18,098
2021		158,036
2022		174,847
2023		120,834
2024		21,938
Thereafter		490,983
	$	984,736

The System paid interest, net of capitalized interest, of approximately $37,700 and $37,000 in 2019 and 2018, 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, 2019 and 2018, $13,750 and $0 was held as collateral, respectively, and was recorded in current portion of investments limited to use and included in Note 7 as Funds in Trust for disclosure. Collateral postings are primarily driven by the value of the swap as measured at the reset date. Collateral requirements increase if credit ratings were to be downgraded.

The fair value of each swap is the estimated amount UCMC would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value is included in interest rate swap liability on the consolidated balance sheets, while the change in fair value is recorded in 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 London Interbank Rate (LIBOR). The inputs to the fair value estimate are considered Level 2 in the fair value hierarchy.

In July 2011, UCMC novated the original swap agreement to divide the original notional amount in two equal parts between financial institutions. The fair value of the terminated portion of the hedge on the date of the novation was recorded in net assets in the amount of $35,123 and is being amortized into interest expense over the life of the related debt (approximately $1,726 of amortization in 2019 and 2018), commencing on February 23, 2013, the date the Center for Care and Discovery was placed into service. The new agreement is being accounted for as a hedge. The combined notional amount of the swap is $325,000 with an effective start date of August 2011. Management has determined that the interest rate swaps are effective, and have qualified for hedge accounting. The fair value of the UCMC swap agreement liabilities was $127,068 and $97,299 at June 30, 2019 and 2018, 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 $(29,233) and $24,635 in 2019 and 2018, respectively, has been included in the change in net assets without donor restrictions in the accompanying 2019 and 2018 consolidated statements of operations and changes in net assets without donor restriction. Management has recognized ineffectiveness of approximately $1,190 in 2019 and an ineffectiveness of $(62) in 2018 in nonoperating gains and losses. This movement reflects the spread between tax-exempt interest rates and LIBOR during the period. The effective portion of these swaps is included in other changes in unrestricted net assets. The interest rate swaps terminate on February 1, 2044. Cash settlement payments related to the swaps are recorded in interest expense.

(Continued)

(Dollars in thousands)

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

CHHD Swap Agreement

CHHD entered into an interest rate swap agreement on June 28, 2004 to lock in long-term fixed rates on the Series 2004 variable-rate debt issuance, with a notional amount of $40,125 and a maturity date of May 15, 2034. This agreement was amended on March 1, 2013. Under the amended agreement, the notional amount and maturity did not change, and CHHD receives, on a monthly basis, 67% of one-month LIBOR plus 47.5 basis points and makes payments on a monthly basis, an annualized fixed rate of 4.61%. The swap is not designated as a hedging instrument, and therefore, the change in fair value of the 2004 interest rate swap agreement of $(2,003) and $2,356 in 2019 and 2018, respectively, was recognized as a component of nonoperating gains in the accompanying consolidated statement of operations and changes in net assets without donor restriction. The fair value of the Series 2004 interest rate swap agreement liability of $9,118 and $7,115 at June 30, 2019 and 2018, respectively, is included as a component of other long-term liabilities in the accompanying consolidated balance sheet. The differential to be paid or received under the Series 2004 interest rate swap agreement is recognized monthly and has been included as a component of interest expense in the accompanying consolidated statement of operations and changes in net assets without donor restriction.

A summary of outstanding positions under the interest rate swap agreements for CHHD at June 30, 2019 is as follows:

Series	Notional amount	Maturity date	Rate received	Rate paid
2004 Interest rate swap Agreement:	$ 40,125	May 15, 2034	% of LIBOR *	Fixed 4.61%

* Rate received is 67% of one-month LIBOR plus 47.5 basis points.

(Dollars in thousands)

(12) Commitments

Leases

The System leases office space and equipment under leases that are classified as operating leases. Future minimum payments required under noncancelable leases as of June 30 are as follows:

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

The amount of total assets capitalized under these leases at both June 30, 2019 and June 30, 2018 is $13,600 and $11,300 with related accumulated depreciation of $2,400 and $1,200, respectively. Rental expense was approximately $10,900 and $9,400 for the years ended June 30, 2019 and 2018, respectively.

(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, 2019 and 2018 was $5,000 per claim and unlimited in the aggregate. Claims in excess of $5,000 are subject to an additional self-insurance retention limited to $12,500 per claim and $22,500 in aggregate. There are no assurances that the University will be able to renew existing policies or procure coverage on similar terms in the future.

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

The System has engaged professional consultants for calculating an estimated liability for medical malpractice self-insurance and is actuarially determined based upon estimated claim reserves and various assumptions, and represents the estimated present value of self-insurance claims that will be settled in the

(Continued)

(Dollars in thousands)

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, 2019 and 2018 is presented below:

		2019	2018
Actuarial present value of self-insurance liability for medical malpractice	$	192,018	201,440
Total assets available for claims		260,084	269,378

If the present-value method were not used, the ultimate liability for medical malpractice self-insurance claims would be approximately $28,651 higher at June 30, 2019. The interest rate assumed in determining the present value was 3.5% and 4% for 2019 and 2018, respectively. UCMC has recorded its pro-rata share of the malpractice self-insurance liability in the amount of $86,408 and $90,648 at June 30, 2019 and June 30, 2018, 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 2020, UCMC's expense is estimated to be approximately $10,000 related to malpractice insurance.

On April 30, 2019, CHHD entered into a loss portfolio transfer for the Ingalls Memorial Hospital medical malpractice program by obtaining an occurrence-based policy for claims through June 30, 2018 through a payment of $47,311 to an unrelated insurance company. The loss portfolio transferred was structured through Ingalls Captive Insurance entity for purposes of additional insurance protection and risk management. At June 30, 2019, 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 an undiscounted basis.

(14) Pension Plans

Active Plans

A majority of UCMC's personnel participate in the University's defined benefit and contribution pension plans, which are considered multi-employer pension plans. Under the defined benefit portion of this plan, benefits are based on years of service and the employee's compensation for the five highest paid consecutive years within the last ten years of employment. UCMC and the University make annual contributions to this portion of the plan at a rate necessary to maintain plan funding based on the guidelines set forth by the Employee Retirement Income Security Act of 1974, on an actuarially determined basis. UCMC recognizes its share of net periodic pension cost as expense and any difference in the contribution amount as a transfer of unrestricted net assets. The adjustment to net assets was $(14,787) and $(7,853) for the years ended June 30, 2019 and 2018. No contributions were made in the fiscal years ended June 30, 2019 and 2018. UCMC expects to make contributions not to exceed $3,200 for the fiscal year ending June 30, 2020.

(Dollars in thousands)

Effective January 1, 2017, the 401(a) defined benefit pension plan was frozen for UCMC employees participating in the plan and was replaced with an enhanced defined contribution plan. Under the defined contribution portion of the plan, UCMC and plan participants make contributions that accrue to the benefit of the participants at retirement. UCMC's contributions, which are based on a percentage of each covered employee's salary, totaled approximately $23,800 and $22,300 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 is as follows:

			Contribution of UCMC	
Plan name	**EIN**		**2019**	**2018**
University of Chicago Retirement Income Plan for Employees	36-2177139-002	$	—	—
University of Chicago Pension Plan for Staff Employees	36-2177139-003		—	—
		$	—	—

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

		2019	2018
Projected benefit obligation	$	946,250	921,794
Fair value of plan assets		763,789	745,768
Deficit of plan assets over benefit obligation	$	(182,461)	(176,026)

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

	2019	2018
Discount rate	3.6 %	4.2 %
Expected return on plan assets	6.3	6.5
Rate of compensation increase	3.5	3.5

(Dollars in thousands)

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

	2019	2018
Domestic equities	23 %	24 %
International equity	27	26
Fixed income	50	50
	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.

Expected future benefit payments excluding plan expenses are as follows:

Fiscal year:		
2020	$	62,238
2021		49,753
2022		50,367
2023		49,532
2024		49,772
2025–2029		271,125

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 $7,600 and $7,100 for the years ended June 30, 2019 and 2018, respectively.

CHHD expense under these distinct defined contribution retirement plans was $2,800 and $3,000 for the years ended June 30, 2019 and 2018, respectively.

Curtailed and Frozen Plan

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

(Dollars in thousands)

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

		Year ended June 30	
		2019	2018
Net periodic pension cost:			
Service cost	$	—	—
Net periodic pension cost	$	—	—
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Interest cost	$	1,892	2,187
Expected return on plan assets		(2,677)	(3,001)
Amortization of unrecognized net actuarial loss		949	1,097
Liability for pension benefits		—	(8,362)
Total recognized in net periodic pension cost and unrestricted net assets	$	164	8,645

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

		Year ended June 30	
		2019	2018
Changes in projected benefit obligation:			
Benefit obligation at beginning of year	$	46,955	61,105
Interest cost		1,892	2,187
Net actuarial loss (gain)		6,042	(3,965)
Settlements		—	(8,769)
Benefits paid		(3,643)	(3,603)
		51,246	46,955
Changes in plan assets:			
Fair value of plan assets at beginning of year		45,017	50,522
Actual return on plan assets		2,247	867
Employer contribution		1,500	6,000
Settlements		—	(8,769)
Benefits paid		(3,643)	(3,603)
		45,121	45,017
Funded status at end of year	$	(6,125)	(1,938)

(Continued)

(Dollars in thousands)

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

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

	2019	2018
Discount rate	3.5 %	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:

	2019	2018
Cash	2 %	1 %
Fixed income	66	61
Domestic equities	21	28
International equities	11	10
	100 %	100 %

All plan assets are valued using Level 1 inputs in 2019 and 2018. The target asset allocation is 60% equities and 40% fixed income. The expected return on plan assets is based on historical investment returns for similar investment portfolios.

UCMC expects to make contributions of $3,000 to the plan in the fiscal year ended June 30, 2020.

Expected future benefit payments are as follows:

Fiscal year:		
2020	$	3,659
2021		3,767
2022		3,684
2023		3,606
2024		3,527
2025–2029		16,162

(Dollars in thousands)

(15) Functional Expenses

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

	2019				
	Healthcare services	Admin	Fund raising	Total	2018
Salaries, wages, and benefits	$ 887,053	103,448	1,897	992,398	943,525
Supplies and other	675,896	89,515	1,631	767,042	679,541
Physician services	271,828	11,314	—	283,142	280,779
Insurance	25,682	3,300	—	28,982	46,690
Interest	38,079	6,377	—	44,456	43,900
Medicaid provider tax	49,517	17,123	—	66,640	59,773
Depreciation and amortization	112,468	15,730	—	128,198	125,031
Total	$ 2,060,523	246,807	3,528	2,310,858	2,179,239

(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) Nursing Strike

From September 20, 2019 to September 24, 2019, nurses of the System that were members of the National Nurses Union went on strike. The strike resulted in additional costs being incurred, which included hiring temporary contracted nurses, combined with a loss of patient volume during the time period of the strike. While these nurses subsequently returned to work on September 25, 2019, no formal contract has been agreed to as of the reporting date. While the financial impact of the nursing strike and ongoing negotiations has not been fully estimated, management does not believe the impact will materially affect the consolidated operations or net assets of the Company over the long term.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

Consolidating Balance Sheet Information

June 30, 2019

(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	$ 150,899	10,461	325	981	—	—	162,666	6,435	5,021	—	174,122
Patient accounts receivable, net of estimated uncollectibles of $160,307 in 2018	359,177	—	37,305	—	2,491	—	398,973	249	(92)	—	399,130
Current portion of investments limited to use	13,935	3,038	—	—	—	—	16,973	—	2,319	—	19,292
Current portion of malpractice self-insurance receivable	15,266	—	—	—	—	—	15,266	—	—	—	15,266
Current portion of pledges receivable	1,434	—	—	—	—	—	1,434	—	—	—	1,434
Due from affiliates	34,608	7,030	48,850	65	7,826	(32,972)	65,407	—	730	(66,137)	—
Prepaids, inventory, and other current assets	102,389	1,523	14,428	232	105	—	118,677	3,748	34,082	(1,083)	155,424
Total current assets	677,708	22,052	100,908	1,278	10,422	(32,972)	779,396	10,432	42,060	(67,220)	764,668
Investments, limited as to use, less current portion	1,010,359	7,281	144,948	59,899	15,352	(4,067)	1,233,772	—	10,156	—	1,243,928
Property, plant, and equipment, net	1,364,482	7,629	191,406	—	28	—	1,563,545	1,151	3,060	—	1,567,756
Pledges receivable, less current portion	1,438	—	—	—	—	—	1,438	—	—	—	1,438
Malpractice self-insurance receivable, less current portion	85,361	—	—	—	—	—	85,361	—	—	—	85,361
Other assets, net	374,558	(968)	254	—	—	(327,072)	46,772	39,395	2,955	(34,231)	54,891
Total assets	$ 3,513,906	35,994	437,516	61,177	25,802	(364,111)	3,710,284	50,978	58,231	(101,451)	3,718,042
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued expenses	$ 182,742	3,982	35,075	282	1,683	—	223,764	2,894	14,590	—	241,248
Current portion of long-term debt	15,208	—	2,890	—	—	—	18,098	—	—	—	18,098
Current portion of other long-term liabilities	1,808	—	—	—	—	—	1,808	—	—	(1,083)	725
Estimated third-party payor settlements	240,398	—	22,861	—	—	—	263,259	—	—	—	263,259
Current portion of malpractice self-insurance liability	15,266	—	—	—	—	—	15,266	—	—	—	15,266
Due to affiliates	—	33,885	315	132	118	(32,972)	1,478	33,596	31,063	(66,137)	—
Due to the University of Chicago	30,769	—	—	—	—	—	30,769	—	—	—	30,769
Total current liabilities	486,191	37,867	61,141	414	1,801	(32,972)	554,442	36,490	45,653	(67,220)	569,365
Workers' compensation self-insurance liability, less current portion	6,396	—	—	—	—	—	6,396	—	—	—	6,396
Malpractice self insurance liability, less current portion	85,361	2,994	—	—	—	—	88,355	—	40,107	—	128,462
Long-term debt, excluding current installments	846,996	—	98,686	—	—	—	945,682	42,176	—	—	987,858
Interest rate swap liability	127,068	—	9,118	—	—	—	136,186	—	—	—	136,186
Other long-term liabilities, less current portion	68,037	4,799	8,101	—	—	(2,362)	78,575	1,560	—	(39,833)	40,302
Total liabilities	1,620,049	45,660	177,046	414	1,801	(35,334)	1,809,636	80,226	85,760	(107,053)	1,868,569
Net assets (deficit):											
Without donor restrictions	1,781,009	(9,666)	256,408	47,398	23,996	(311,588)	1,787,557	(29,248)	(27,529)	5,602	1,736,382
With donor restrictions	112,848	—	4,062	13,365	5	(17,189)	113,091	—	—	—	113,091
Total net assets (deficit)	1,893,857	(9,666)	260,470	60,763	24,001	(328,777)	1,900,648	(29,248)	(27,529)	5,602	1,849,473
Total liabilities and net assets	$ 3,513,906	35,994	437,516	61,177	25,802	(364,111)	3,710,284	50,978	58,231	(101,451)	3,718,042

See accompanying independent auditors' report.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

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

Year ended June 30, 2019

(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:											
Net patient service revenue	1,796,247	—	287,806	—	12,478	—	2,096,531	5,135	22,506	(2,203)	2,121,969
Other operating revenue and net assets released from restrictions	233,457	18,427	8,299	2,568	9	(17,191)	245,569	5,937	28,471	(14,444)	265,533
Total operating revenues	2,029,704	18,427	296,105	2,568	12,487	(17,191)	2,342,100	11,072	50,977	(16,647)	2,387,502
Operating expenses:							—				
Salaries, wages, and benefits	828,573	2,064	117,133	86	8,819	—	956,675	12,514	24,825	(1,616)	992,398
Supplies and other	622,494	2,340	123,215	2,108	1,485	(1,315)	750,327	3,487	15,218	(1,990)	767,042
Physician services	262,448	1,842	14,279	35	208	(3,537)	275,275	309	17,198	(9,640)	283,142
Insurance	12,557	12,419	13,516	—	348	(12,339)	26,501	1,101	2,930	(1,550)	28,982
Interest	40,656	—	4,755	—	—	—	45,411	896	—	(1,851)	44,456
Medicaid provider tax	49,518	—	17,122	—	—	—	66,640	—	—	—	66,640
Depreciation and amortization	111,131	535	15,039	—	10	—	126,715	558	925	—	128,198
Total operating expenses	1,927,377	19,200	305,059	2,229	10,870	(17,191)	2,247,544	18,865	61,096	(16,647)	2,310,858
Operating revenue in excess (deficit) of expenses	102,327	(773)	(8,954)	339	1,617	—	94,556	(7,793)	(10,119)	—	76,644
Nonoperating gains (losses), net:							—				
Investment income, net	48,235	291	6,386	4,304	812	—	60,028	—	64	—	60,092
Change in fair value of nonhedged derivative instruments	—	—	(2,003)	—	—	—	(2,003)	—	—	—	(2,003)
Derivative ineffectiveness on hedged derivative instruments	1,190	—	—	—	—	—	1,190	—	—	—	1,190
Other, net	8,035	(1,723)	54	—	—	—	6,366	—	(427)	1,767	7,706
Net nonoperating gains (losses)	57,460	(1,432)	4,437	4,304	812	—	65,581	—	(363)	1,767	66,985
Revenue and gains in excess (deficient) of expenses and losses	159,787	(2,205)	(4,517)	4,643	2,429	—	160,137	(7,793)	(10,482)	1,767	143,629
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	(14,787)	—	—	—	—	—	(14,787)	—	—	—	(14,787)
Effective portion of change in valuation of derivatives	(29,233)	—	—	—	—	—	(29,233)	—	—	—	(29,233)
Net assets released from restriction for capital purposes	34	—	—	428	—	—	462	—	—	—	462
Distributions and other, net	—	(4,300)	—	(428)	—	—	(4,728)	—	3,990	—	(738)
Increase (decrease) in net assets without donor restrictions	$ 44,051	(6,505)	(4,517)	4,643	2,429	—	40,101	(7,793)	(6,492)	1,767	27,583

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, 2019

(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	$ 159,787	(2,205)	(4,517)	4,643	2,429	—	160,137	(7,793)	(10,482)	1,767	143,629
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	(14,787)	—	—	—	—	—	(14,787)	—	—	—	(14,787)
Effective portion of change in valuation of derivatives	(29,233)	—	—	—	—	—	(29,233)	—	—	—	(29,233)
Net assets released from restriction for capital purposes	34	—	—	428	—	—	462	—	—	—	462
Distributions and other, net	—	(4,300)	—	(428)	—	—	(4,728)	—	3,990	—	(738)
Increase (decrease) in net assets without donor restrictions	44,051	(6,505)	(4,517)	4,643	2,429	—	40,101	(7,793)	(6,492)	1,767	27,583
Net assets with donor restrictions:											
Contributions	3,438	—	—	1,005	—	—	4,443	—	—	—	4,443
Change in net interest in Foundation	—	—	(399)	—	—	399	—				—
Net assets released from restrictions used for operating purposes	(6,078)	—	—	(994)	—	—	(7,072)	—	—	—	(7,072)
Net assets released from restrictions used for capital purposes	(34)	—	—	(428)	—	—	(462)	—	—	—	(462)
Investment income	4,727	—	—	(13)	—	—	4,714	—	—	—	4,714
Increase (decrease) in net assets with donor restrictions	2,053	—	(399)	(430)	—	399	1,623	—	—	—	1,623
Change in net assets	46,104	(6,505)	(4,916)	4,213	2,429	399	41,724	(7,793)	(6,492)	1,767	29,206
Net assets (deficit) at beginning of year	1,847,753	(3,161)	265,386	56,550	21,572	(329,176)	1,858,924	(21,455)	(21,037)	3,835	1,820,267
Net assets (deficit) at end of year	$ 1,893,857	(9,666)	260,470	60,763	24,001	(328,777)	1,900,648	(29,248)	(27,529)	5,602	1,849,473

See accompanying independent auditors' report.