

**Children's Hospital of Chicago  
Medical Center and Affiliated  
Corporations**

**Consolidated Financial Statements  
August 31, 2017 and 2016**

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Index

August 31, 2017 and 2016

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1-2
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operation and Change in Net Assets .....	4-5
Consolidated Statements of Cash Flow .....	6
Notes to Consolidated Financial Statements .....	7-36
<b>Supplemental Information</b>	
Consolidating Balance Sheets .....	37-38
Consolidating Statements of Operation and Change in Unrestricted Net Assets.....	39-40



## **Report of Independent Auditors**

To the Board of Directors of Children’s Hospital of Chicago Medical Center and Affiliated Corporations

We have audited the accompanying consolidated financial statements of Children’s Hospital of Chicago Medical Center and Affiliated Corporations (‘the Medical Center’), which comprise the consolidated balance sheets as of August 31, 2017 and 2016, and the related consolidated statements of operation and change in net assets and of cash flows for the years then ended.

### ***Management’s Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 the 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 our 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, we consider internal control relevant to the Medical Center’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 Medical Center’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 audit opinion.



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children’s Hospital of Chicago Medical Center and Affiliated Corporations as of August 31, 2017 and 2016, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual companies.

*PricewaterhouseCoopers LLP.*

Chicago, Illinois  
December 6, 2017

**Children's Hospital of Chicago Medical Center and Affiliated Corporations**  
**Consolidated Balance Sheets**  
**August 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 35,642,889	\$ 35,464,988
Current portion of self-insurance trust	15,000,000	17,175,000
Accounts receivable, net of allowance for uncollectible accounts of \$25,991,000 and \$19,763,000 in 2017 and 2016, respectively	167,445,978	144,037,611
Other current assets	<u>81,053,300</u>	<u>86,397,830</u>
Total current assets	<u>299,142,167</u>	<u>283,075,429</u>
Investments	<u>1,318,325,752</u>	<u>1,169,174,416</u>
Property and equipment, at cost		
Land	38,234,151	38,234,151
Buildings and improvements	958,262,026	944,450,635
Equipment	334,938,725	312,208,533
Construction in progress	<u>95,565,737</u>	<u>30,059,925</u>
Total property and equipment, at cost	1,427,000,639	1,324,953,244
Less: Accumulated depreciation	<u>482,965,833</u>	<u>415,190,998</u>
Property and equipment, net	<u>944,034,806</u>	<u>909,762,246</u>
Other assets		
Pledges receivable restricted by donors, net	27,014,628	27,821,878
Goodwill	1,417,706	1,417,706
Other	<u>17,996,711</u>	<u>18,430,084</u>
Total other assets	<u>46,429,045</u>	<u>47,669,668</u>
Total assets	<u>\$ 2,607,931,770</u>	<u>\$ 2,409,681,759</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 180,588,644	\$ 137,482,166
Current portion of self-insurance liability	15,000,000	17,175,000
Due to third-party payors	45,108,320	42,162,115
Current portion of long-term debt	<u>5,150,000</u>	<u>4,890,000</u>
Total current liabilities	<u>245,846,964</u>	<u>201,709,281</u>
Other liabilities		
Self-insurance liability	89,622,319	82,828,496
Other noncurrent liabilities	<u>35,316,713</u>	<u>51,888,687</u>
Total other liabilities	124,939,032	134,717,183
Long-term debt	<u>352,933,396</u>	<u>357,449,475</u>
Total liabilities	<u>723,719,392</u>	<u>693,875,939</u>
Net assets		
Unrestricted	1,475,569,066	1,340,525,135
Temporarily restricted	233,762,028	207,628,025
Permanently restricted	<u>174,881,284</u>	<u>167,652,660</u>
Total net assets	1,884,212,378	1,715,805,820
Total liabilities and net assets	<u>\$ 2,607,931,770</u>	<u>\$ 2,409,681,759</u>

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

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidated Statements of Operation and Change in Net Assets Years Ended August 31, 2017 and 2016

	2017	2016
<b>Operating revenue</b>		
Patient service revenue, net of contractual allowance and discounts	\$ 883,178,632	\$ 807,078,359
Provision for doubtful accounts	<u>15,997,874</u>	<u>13,144,509</u>
Net patient service revenue	867,180,758	793,933,850
Net assets released from restriction		
Contributions and philanthropy used for program purposes	25,508,171	25,528,929
Grants and other restricted income used for program purposes	41,156,293	39,045,451
Board-designated endowment income	9,377,423	7,628,036
Other operating revenue	<u>56,666,109</u>	<u>56,313,877</u>
Total operating revenue	<u>999,888,754</u>	<u>922,450,143</u>
<b>Operating expenses</b>		
Salaries, wages, and employee benefits	528,395,013	489,786,645
Supplies and services	328,587,843	292,000,735
Depreciation	<u>68,907,720</u>	<u>68,089,724</u>
Total operating expenses	<u>925,890,576</u>	<u>849,877,104</u>
Income from operations before interest and amortization	73,998,178	72,573,039
Interest and amortization of financing costs	<u>21,692,569</u>	<u>22,215,302</u>
Income from operations	<u>52,305,609</u>	<u>50,357,737</u>
<b>Nonoperating income (expense)</b>		
Investment return gains	86,682,029	11,148,923
Unrestricted contributions and bequests	18,192,623	17,876,090
Fund-raising expense	(16,361,679)	(17,283,228)
(Loss) gain on disposal of fixed assets	(252,049)	50,824,462
Loss on debt refinancing	(9,328,997)	-
Other	<u>(13,687,026)</u>	<u>(1,699,840)</u>
Total nonoperating income	<u>65,244,901</u>	<u>60,866,407</u>
Excess of revenue over expenses	<u>\$ 117,550,510</u>	<u>\$ 111,224,144</u>

Continued

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

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidated Statements of Operation and Change in Net Assets Years Ended August 31, 2017 and 2016

	2017	2016
<b>Unrestricted net assets</b>		
Excess of revenue over expenses	\$ 117,550,510	\$ 111,224,144
Net assets released from restriction used for purchase and construction of property and equipment	942,978	429,495
Retirement plan related change other than net periodic retirement plan expense	16,424,784	(13,847,027)
Other	125,659	262,669
Increase in unrestricted net assets	<u>135,043,931</u>	<u>98,069,281</u>
<b>Temporarily restricted net assets</b>		
Contributions	38,401,249	25,064,998
Grants and other restricted income	40,486,115	41,677,901
Investment return	15,172,436	3,902,783
Pledge receivable write-offs, net of change in allowance	(59,321)	(299,686)
Net assets released from restriction		
Contributions and philanthropy used for program purposes	(25,508,171)	(25,528,929)
Grants and other restricted income used for program purposes	(41,156,293)	(39,045,451)
Purchase of property and equipment	(942,978)	(429,495)
Transfers and other	(259,034)	(814,470)
Increase in temporarily restricted net assets	<u>26,134,003</u>	<u>4,527,651</u>
<b>Permanently restricted net assets</b>		
Contributions	5,659,377	3,537,604
Change in fair value of perpetual trusts	1,310,213	267,337
Transfers and other	259,034	814,470
Increase in permanently restricted net assets	<u>7,228,624</u>	<u>4,619,411</u>
Increase in net assets	168,406,558	107,216,343
<b>Net assets</b>		
Beginning of year	<u>1,715,805,820</u>	<u>1,608,589,477</u>
End of year	<u>\$ 1,884,212,378</u>	<u>\$ 1,715,805,820</u>

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

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidated Statements of Cash Flow Years Ended August 31, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 168,406,558	\$ 107,216,343
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gains on investments	(86,682,029)	(11,148,923)
Restricted contributions and restricted investment return	(25,289,376)	(13,688,780)
Loss (gain) on disposal of fixed assets	252,049	(50,824,462)
Receipt of contributed securities	(8,962,652)	(3,186,559)
Loss on debt refinancing	9,328,997	-
Investment loss-CIN and MCC	6,300,186	-
Retirement plan - related change other than net periodic retirement plan expense	(16,424,784)	13,847,027
Depreciation and amortization	69,105,714	68,530,880
Provision for doubtful accounts	15,997,874	13,144,509
Net changes in assets and liabilities		
Accounts receivable, net	(39,406,241)	(71,382,726)
Accounts payable and accrued expenses	42,793,630	37,594,050
Premium on new debt issue	13,415,591	-
Due to third-party payors	2,946,205	12,156,321
Self-insurance liability	4,618,823	(7,128,914)
Other assets and liabilities	6,271,455	(32,224,169)
Net cash provided by operating activities	<u>162,672,000</u>	<u>62,904,597</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(100,434,952)	(51,444,625)
Net proceeds from sale of property	-	51,760,479
Sale of investments	3,327,422,506	1,773,940,081
Purchases of investments	(3,370,490,272)	(1,831,950,026)
Purchase of business, net of acquired cash	-	(4,050,000)
Net cash used in investing activities	<u>(143,502,718)</u>	<u>(61,744,091)</u>
<b>Cash flows from financing activities</b>		
Principal payments under long-term debt obligations	(4,890,000)	(4,645,000)
Proceeds from long-term refinancing	135,480,000	-
Advance refunding of debt	(158,717,859)	-
Debt issuance costs	(1,588,823)	-
Proceeds from restricted contributions and restricted investment income	10,725,301	11,254,325
Net cash (used in)/provided by financing activities	<u>(18,991,381)</u>	<u>6,609,325</u>
Increase in cash and cash equivalents	177,901	7,769,831
<b>Cash and cash equivalents</b>		
Beginning of year	<u>35,464,988</u>	<u>27,695,157</u>
End of year	<u>\$ 35,642,889</u>	<u>\$ 35,464,988</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest	\$ 20,976,000	\$ 19,917,000
Noncash additions to property and equipment	8,965,000	5,968,000

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

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### 1. Organization and Nature of Operations

Children's Hospital of Chicago Medical Center (the 'Medical Center'), an Illinois not-for-profit corporation, is the sole member of Ann & Robert H. Lurie Children's Hospital of Chicago (the 'Hospital'), an Illinois not-for-profit corporation. The Hospital was founded in 1882 by Julia Foster Porter to provide medical care for all children. Today, the Medical Center and its affiliates comprise an independent, freestanding academic institution dedicated to the health and well-being of all children. The Medical Center is also the sole member of Ann & Robert H. Lurie Children's Hospital of Chicago Foundation (the 'Foundation'), Stanley Manne Children's Research Institute (the 'Research Center'), Pediatric Faculty Foundation, Inc. ('PFF') and Almost Home Kids ('AHK'), all Illinois not for-profit corporations. Each of the following entities: Lurie Children's Medical Group, LLC ('LCMG'), Lurie Children's Health Partners Care Coordination, LLC (the 'CCE') and Lurie Children's Primary Care, LLC ('LCPC') are Illinois limited liability companies whose sole member is the Medical Center. The Medical Center is also the parent of CMMC Insurance Co. Ltd. ('CMMC Insurance'), a captive, offshore insurance entity organized under the laws of the Cayman Islands.

The Hospital owns and operates a pediatric hospital with 288 licensed beds in Chicago, Illinois. The Hospital provides a complete range of pediatric health care services, including pediatric inpatient medical and surgical care, tertiary and quaternary care services, and emergency services. The Hospital operates more than 50 specialty and primary care outpatient clinics at its main campus in the Streeterville neighborhood and throughout the Chicago area, as well as two ambulatory care facilities and thirteen outpatient specialty centers in the surrounding metro Chicago areas.

The Foundation carries out fundraising and other related development activities in support of the Medical Center and its affiliates. The Foundation supports comprehensive capital campaigns aligned with the Medical Center's strategic plans. Restricted contributions support specific programs, recruitments, and research, in addition to unrestricted contributions which, not only offset fundraising expense, but also contribute to the Hospital's greatest areas of need.

The Research Center was established to improve pediatric health and health care services through research and education. Its role is to build a scientific community in support of treatments and cures within pediatric medicine which span the laboratory bench to the patient's bedside. During fiscal 2016, the Medical Center entered into a multi-year commitment in conjunction with Northwestern University for a new research tower.

PFF provides physician services to a broad pediatric population in Chicago and surrounding counties and across the State of Illinois, employing more than 460 pediatric primary care and subspecialty physicians. A portion of research activity also flows through PFF.

LCMG, with more than 55 employed physicians, provides pathology, medical imaging, psychiatry, and dentistry services to the Hospital and its patients.

AHK is a unique organization providing transitional and respite care for medically complex children outside the acute care setting.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

CMMC Insurance is a captive, offshore insurance entity whose sole function is to purchase reinsurance for the purpose of reducing risk and cost. It currently does not retain risk. CMMC Insurance has no employees and is managed on behalf of the Hospital by an independent Cayman Islands-based management company.

LCPC was acquired on January 1, 2016 by the Medical Center and is composed of approximately 20 primary care pediatricians. The operations of LCPC have been included in the consolidated statements of operation and change in net assets from January 1, 2016 forward.

The CCE exists for the provision and coordination of medical care of medically complex children, contracting with Managed Care Organizations ('MCO's') and commercial health plans to provide care coordination services to children within their plans that have complex medical needs.

In April 2014, the Medical Center became one of eleven partners of Accountable Care Chicago, LLC, doing business as MyCare Chicago ('MCC'). As of October 2016, MCC was dissolved, after transitioning all members and network management to a third party and upon dissolution care coordination was terminated. The Medical Center's investment in MCC is \$92,000 and \$2,646,000 as of August 31, 2017 and 2016, respectively, subsequent to cash distributions.

In June 2014, the Medical Center, Children's Community Physicians Association ('CCPA'), and Children's Faculty Practice Plan ('FPP') formed Lurie Children's Health Partners Clinically Integrated Network, LLC (the 'CIN'). The CIN is an integrated healthcare network focused on creating value-based reimbursement programs with payors that support improving the health and well-being of children and their families. The CIN has a twelve member board of which CCPA appoints six, FPP appoints four, and the Medical Center appoints two. CCPA and FPP are committed to a 9% capital position, and the Medical Center is committed to a 91% capital position, of which \$2,343,000 was contributed during fiscal year 2017. As the Medical Center does not have governance control, the CIN is not a consolidating entity but rather accounted for under the equity method. The Medical Center corrected a prior period error with a write-down adjustment of \$3,700,000 related to prior years to its investment in CIN as of August 31, 2017.

In June 2012, the Ann & Robert H. Lurie Children's Hospital of Chicago opened, moving hospital operations from Lincoln Park to the Streeterville facility in downtown Chicago. The Lincoln Park facility was closed as of June 2012, decommissioned, and sold in February 2016. The purchase price was \$50,000,000. Net gain on disposal of assets was \$49,937,000 and is reflected on the consolidated statement of operation and change in net assets in nonoperating income for the year ended August 31, 2016, including \$3,211,000 of an asset retirement obligation relieved related to the property.

### Consolidation

The accompanying consolidated financial statements of the Medical Center include the accounts of the Hospital, the Foundation, the Research Center, PFF, LCMG, AHK, the Medical Center, CMMC Insurance, CCE and LCPC. Intercompany transactions and accounts have been eliminated.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

The accompanying consolidating balance sheets and consolidating statements of operation and change in unrestricted net asset by entity as of August 31, 2017 and 2016 are provided for purposes of additional analysis and are not required as part of the consolidated financial statements. They have been prepared in a manner consistent with generally accepted accounting principles ('GAAP') and are presented only for purposes of additional analysis and not as a presentation of financial position and results of operations of each component of the combined group. The supplemental consolidating financial information was derived from the accounting records used to prepare the consolidated financial statements. All intercompany eliminations have been properly recorded.

### Income Taxes

The Internal Revenue Service has determined that the Medical Center, the Hospital, the Research Center, the Foundation, PFF, and AHK are all not-for-profit organizations under Section 501(c) (3) of the Internal Revenue Code and are exempt from federal income taxes on related income. However, certain activities of the Hospital are taxable as unrelated business income tax under the Internal Revenue Code. Such activities include earnings from alternative investments, the reference laboratory and parking fees.

LCMG, CCE and LCPC are described as disregarded entities and are treated as divisions of the Medical Center; therefore, financial and other information applicable to LCMG, CCE and LCPC are reported under the Medical Center.

## 2. Summary of Significant Accounting Policies

### Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ('FASB') issued Accounting Standards Update ('ASU') No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 creates Accounting Standards Codification ('ASC') 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU No. 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer and indicates an entity should disclose sufficient information to enable users of consolidated financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. FASB also issued ASU 2016-08, 10, 12 and 20 as various amendments to ASU 2014-09. ASU 2015-14 deferred the effective date of ASU 2014-09. ASU 2014-09 is now effective for the Medical Center beginning on September 1, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Medical Center is in the process of assessing the potential financial statement impact of this new revenue standard and did not early adopt this standard as of August 31, 2017.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which is intended to provide users of financial statements with information on the recognition, measurement, presentation, and disclosure of financial instruments. The new guidance targets improvements to a number of existing GAAP disclosures. The ASU on recognition and measurement is effective for public business entities for fiscal years beginning after December 15, 2017. All other entities, including not-for-profit entities, have an additional year or may early adopt with the public businesses. The Medical Center did not early adopt this standard as of August 31, 2017.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The standard requires entities to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Lessees will recognize a right-of-use asset and a lease liability for most leases, and classify as either an operating or a financing lease. The guidance significantly changes lessee accounting for leases and impacts financial statement presentation and may impact financial metrics, including those related to debt covenants and key performance indicators. This standard is effective for annual periods beginning after December 15, 2018. Early adoption is permitted and the new guidance is applicable on a retroactive basis. The Medical Center is in the process of assessing the potential financial statement impact of this new lease standard and did not early adopt this standard as of August 31, 2017.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard requires Not-for-Profits ('NFPs') to present on the face of the statement of financial position two classes of net assets at the end of the period, rather than the currently required three classes. That is, NFPs will report amounts for net assets with donor restrictions and net assets without donor restrictions as well as currently required amounts for total net assets and other provisions. This standard is effective for annual periods beginning after December 15, 2017. Early adoption is permitted and the new guidance is applicable on a retroactive basis. The Medical Center did not early adopt this standard as of August 31, 2017.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*. This standard requires disclosure of uncertainties about an entity's ability to continue as a going concern. The Medical Center adopted this standard as of August 31, 2017. In adopting this standard during the fiscal year, the Medical Center assessed all relevant conditions and events as of August 31, 2017. There were no going concern issues noted.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to address the unnecessary complexity of having different balance sheet presentation requirements for debt issuance costs and debt discounts or premiums. This standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted and the new guidance is applicable on a retroactive basis. The Medical Center adopted this standard as of August 31, 2017. With the adoption of this standard, unamortized bond issuance costs and underwriter discounts were reclassified and are included on a retroactive basis in the long-term debt. The amount of bond issuance costs and unamortized underwriter fees were \$5,746,000 and \$6,525,000 at August 31, 2017 and August 31, 2016, respectively.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share or its equivalent* ('ASU 2015-07'). This guidance removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at Net Asset Value (NAV) (or its equivalent) under the practical expedient in the FASB's fair value measurement guidance. The amendments under this update are effective for fiscal years beginning after December 15, 2016. The Medical Center adopted this update as of August 31, 2017. Fiscal year 2016 disclosures have been adjusted to reflect the implementation of the new guidance retrospectively. See Note 5 (Fair Value Measurements) and Note 8 (Retirement Plans) for detail.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Medical Center to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Medical Center considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, third-party payor settlements, and provisions for doubtful accounts; reserves for losses and expenses related to health care professional and general liabilities; valuation of alternative investments; and risks and assumptions in the measurement of pension liabilities. Management relies on historical experience, other assumptions believed to be reasonable under the circumstances, and recommendations made by the Medical Center external advisors and actuaries in making its judgments and estimates. Actual results could differ from these estimates.

### Cash and Cash Equivalents

Cash and cash equivalents include unrestricted, undesignated marketable securities with original maturities of three months or less that are held for short-term cash management. Cash and cash equivalents are reported at their approximate fair value.

### Current Portion of Self-Insurance Revocable Trust

Current portion of self-insurance trust represents investment assets earmarked for self-insurance trust payments due within a year. See Note 11.

### Accounts Receivable, Net of Allowance for Uncollectible Accounts

Accounts receivable represents patient related receivables net of contractual allowances and net of an allowance for uncollectible accounts. See Note 7.

### Other Current Assets

Other current assets for fiscal year 2017 and 2016 are as follows:

	2017	2016
Outreach Hospitals and Practice Plan Receivables	\$ 17,010,284	\$ 15,350,846
Prepaid expenses	16,823,447	14,810,374
Inventory	6,874,503	7,333,068
Insurance receivables (See Note 11)	32,667,006	42,063,858
Other	7,678,060	6,839,684
Total other current assets	<u>\$ 81,053,300</u>	<u>\$ 86,397,830</u>

### Inventory

Inventories, which primarily consist of medical supplies and pharmaceuticals used for patient care, are stated at the lower of cost (first-in, first-out) or market value.

### Investments

The Medical Center pools its donor restricted, self-insurance, undesignated and board-designated investments. Investment returns are allocated among unrestricted, temporarily restricted, and permanently restricted net assets based on the pro-rata share of the balance in each fund to the total investment pool as of the end of each accounting period.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

Investment income earned, at a fixed rate, on certain funds that are board-designated for patient care, education and the self-insurance trust are reported as other operating revenue. All other investment income and losses (including interest and dividends, realized gains and losses, and unrealized gains and losses) are reported as nonoperating income (loss) unless the income or loss is restricted by donor or law. Investment returns on permanently restricted net assets are allocated to the purposes specified by the donor or law, either as temporarily restricted or unrestricted, as applicable.

### Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, investments, accounts receivable, pledges receivable, insurance receivable, accounts payable, accrued expenses, estimated third party payor settlements, and long-term debt. Except as otherwise disclosed, the fair value of financial instruments approximates the financial statement carrying amount.

### Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. One-half year's depreciation is taken in the year of acquisition, except for significant asset additions such as the Lurie Children's facility, which is depreciated based on the actual date placed into service. The useful lives of the major asset classifications are as follows:

Buildings	40-80 years
Building improvements	15-20 years
Equipment	5-20 years
Computer hardware and software	3-5 years

In 2017 and 2016, the Medical Center disposed of fully depreciated assets of \$716,375 and \$197,394,000, respectively, of property, equipment and software that was no longer in use. The 2016 amount includes the Lincoln Park property.

The Medical Center continually evaluates whether circumstances have occurred that would indicate the remaining estimated useful life of long-lived assets warrants revision or may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, the Medical Center uses an estimate of the undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable.

In connection with the selection of the new research tower site, the existing assets were evaluated for impairment. While no impairment adjustment was deemed necessary, the Medical Center has recognized accelerated depreciation compared to original estimates over reduced estimated useful lives to depreciate the buildings, leasehold improvements and equipment of the Research Center's Halsted location to the date of expected vacancy. During the years ended August 31, 2017 and 2016, the Medical Center recognized \$2,738,000 and \$3,641,000, respectively, of accelerated depreciation on these assets.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### **Pledges Receivable Restricted by Donors**

As of August 31, 2017, approximately 28% of pledges restricted by donors are receivable within one year, 50% between two and five years, and 22% receivable beyond five years. Pledges are recorded at the present value of estimated future cash flow, net of allowances for uncollectible pledges of approximately \$2,255,000 and \$2,610,000 at August 31, 2017 and 2016, respectively, and present value discounts of approximately \$11,771,000 and \$11,664,000 at August 31, 2017 and 2016, respectively. Estimated future cash flows due after one year are discounted using interest rates of 5% to 8% commensurate with estimated collection risks.

### **Unamortized Bond Issuance Costs**

Bond issuance costs are deferred and amortized using the effective interest method over the life of the related debt as an increase to interest expense.

### **Goodwill**

Goodwill represents the excess of the purchase price over the fair value of the net identified tangible and intangible assets acquired in a business combination. The Medical Center incurred goodwill of approximately \$1,400,000 in the purchase of a physician practice in January 2016.

### **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses represents accounts payable and expenses, including payroll incurred by the Medical Center and its affiliates, and insurance payables incurred but not yet paid.

### **Due to Third-Party Payors**

Due to third-party payors represents accruals for settlements with third-party payors, any agency that contracts with the Medical Center or its affiliates and patients to pay for the care of covered patients. Accruals are made based on estimates of amounts to be received or paid under the terms of the respective contracts and related settlement principles and regulations of the State Medicaid program, the Blue Cross Plan of Illinois and the Federal Medicare program.

### **Current and Noncurrent Portions of Self-Insurance Liability**

The self-insurance trust and corresponding liability are reviewed annually by an independent actuary. The Medical Center contributes to the self-insurance trust estimated amounts determined by the actuary to be sufficient to pay for expected future losses. Provisions for the professional liability are based on an actuarial estimate of losses using the Medical Center's actual loss data adjusted for industry trends and current conditions. The provision includes estimates of costs for both reported claims and claims incurred but not reported. See Note 11.

### **Other Noncurrent Liabilities**

Other noncurrent liabilities for fiscal year 2017 and 2016 are as follows:

	2017	2016
Accrued pension liabilities	\$ 21,732,790	\$ 41,766,976
Lease obligations	13,267,293	9,884,492
Other	<u>316,630</u>	<u>237,219</u>
Total other noncurrent liabilities	<u>\$ 35,316,713</u>	<u>\$ 51,888,687</u>

See Note 8 for pension disclosures and Note 10 for a detailed lease payment schedule.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### Net Assets

Net assets are classified based upon donor restrictions, if any, as follows: unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets represent net assets which are free of donor-imposed restrictions, including all revenue, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. Temporarily restricted net assets represent net assets whose use is limited by donor-imposed restrictions, time restrictions and those stipulations that can be fulfilled or otherwise removed by actions of the Medical Center.

Temporarily restricted net assets held outside the endowment fund primarily relate to pledges receivable, grants and program support. Permanently restricted net assets represent net assets whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Medical Center. Refer to Note 6 for further disclosure on endowments and related investment and spending policies.

### Consolidated Statement of Operations and Change in Net Assets

All activities of the Medical Center deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenues and expenses. Other activities deemed to be nonoperating include, unrestricted gifts, fundraising expenses and certain investment income (including realized gains and losses).

The consolidated statements of operation and change in net assets include the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets, pension benefit changes other than net periodic expense, and the release of restriction for property, plant and equipment.

### Net Patient Service Revenue

Substantially all of the Medical Center's net patient service revenue in fiscal 2017 and 2016 was derived from third-party payors that provide for payments to the Medical Center at various contracted rates. Payment arrangements include reimbursed costs (as contractually defined), discounted charges, APR-DRG's and per diem payments. Reimbursement from certain programs is subject to audit. Settlements under these programs are accrued on an estimated basis in the period the related services are rendered and adjusted in subsequent periods as final settlements are determined. Provision is made on a current basis for the difference between charges for services rendered and the expected payments under these agreements and programs and is adjusted in future periods as final settlements are determined. As a result of the complex laws and regulations governing third-party payor programs, recorded estimates are subject to change in the future.

The Medical Center recognizes changes in accounting estimates related to net patient service revenue reserves and third-party payor settlements in the year such changes are known. Adjustments to prior year estimates for these items resulted in an increase in net patient service revenue of approximately \$755,000 and \$2,418,000, respectively, in fiscal year 2017 and 2016.

Approximately 33% and 32%, respectively of the Medical Center's net patient service revenue in fiscal 2017 and 2016 was derived from the Illinois Medicaid program, including Medicaid MCO's.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

In December 2008, the Centers for Medicare and Medicaid Services ('CMS') approved the Assessment Program to improve Medicaid reimbursement for Illinois hospitals. This original program included the Illinois Hospital Provider Assessment and subsequent enhancements. Due to the tax assessment provisions contained in the legislation, implementation of the program affected both operating revenues and expenses in the consolidated statements of operation and change in net assets.

In January 2015 CMS approved Affordable Care Act ('ACA') access payments and expanded this program in June 2016. Both the Provider Assessment and enhancements as well as the ACA payments and recent expansion expire June 30, 2018. The state is currently planning to extend or revise the program. The amount of these payments, if any, going forward is uncertain.

The Medicaid Assessment Program and ACA payments described above are shown in the following table.

	2017	2016
For fiscal year ended August 31		
Tax assessment, included in net patient service revenue	\$ 61,658,587	\$ 56,953,161
Tax expense, included in supplies and service expense	<u>(19,218,966)</u>	<u>(16,905,491)</u>
Net statement of operation impact	<u>\$ 42,439,621</u>	<u>\$ 40,047,670</u>
Related to State fiscal year ended June 30, 2016	\$ -	\$ 33,294,618
Related to State fiscal year ended June 30, 2017	35,233,474	6,753,052
Related to State fiscal year ended June 30, 2018	<u>7,206,147</u>	<u>-</u>
	<u>\$ 42,439,621</u>	<u>\$ 40,047,670</u>

The Medical Center also received federal and state disproportionate share and add-on payments. The amount of disproportionate share and other special payments from Medicaid, if any, that will be made to hospitals in the future, is uncertain.

In fiscal 2017 and 2016, the Medical Center received approximately \$9,711,000 and \$9,473,000, respectively, in graduate medical education reimbursement. The Children's Hospital Graduate Medical Education ('CHGME') program provides federal funds to freestanding children's hospitals to aid in maintaining graduate medical programs that train resident physicians. The program is administered by the Health Care Resource Service Administration, a branch of the U.S. Department of Health and Human Services. The amount of future graduate medical education reimbursement funding is uncertain.

### Grants and Contributions

Unrestricted contributions are included in nonoperating income when received. Unrestricted pledges of amounts to be received in future periods are recorded as temporarily restricted net assets and reflected as changes in unrestricted net assets when received. Grants and contributions restricted for a specific operating purpose are recorded as temporarily restricted net assets and reflected in unrestricted revenue when the funds are expended in accordance with the specifications of the grantor or donor. Contributions for capital expenditures, recorded as temporarily restricted net assets when received, are recorded as net assets released from restrictions when expended and placed into service.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### **Interest in Trustee-Held Funds**

The Medical Center recognizes an interest in trustee-held funds held at various financial institutions in which the Medical Center has a beneficial interest. Annually, the financial institutions distribute a portion of the income earned on these funds to the Medical Center to be used in support of operations. At August 31, 2017 and 2016, the Medical Center's interests in these trustee-held funds at fair value totaled approximately \$30,483,000 and \$29,173,000, respectively, and are included in permanently restricted net assets.

### **Changes in Net Assets**

Unrestricted net asset changes include the net activity of the statement of operation as well as the release from restriction for property, plant and equipment purchases and the other than net periodic retirement plan expense changes.

Temporarily restricted net asset changes include receipts of contributions restricted by time or purpose, grants, investment return and pledge receivable write-offs. Also included are releases of philanthropies or grant funds for use in program services to cover expenses on the statement of operation.

Permanently restricted net asset changes include contributions of permanently restricted funds and the change in the fair value of perpetual trusts.

### **Excess of Revenue Over Expenses**

Excess of revenue over expenses performance indicators include income from operations in addition to investment return gains (loss), unrestricted contributions and bequests, fund-raising expense, gain (loss) on disposal of fixed assets and other miscellaneous nonoperating income and expenses.

### **Reclassification**

Certain 2016 amounts have been reclassified to conform to the 2017 consolidated financial statement presentation.

## **3. Community Benefit**

Consistent with its mission, the Medical Center maintains a policy that sets forth the criteria pursuant to which health care services are provided free of charge or at a reduced rate to children whose families are unable to pay for the charges associated with their medical care. These services represent charity care. Charges are shown as revenue however they are netted with a charity care discount.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

### August 31, 2017 and 2016

---

The Medical Center also provides a broad range of services and activities to support its charitable mission. These services include the following:

- Participation in the Medicaid program at a loss (net reimbursement less allocated cost incurred);
- Support of community medical needs through a variety of outreach programs and educational programs;
- Comprehensive research programs specifically targeted toward pediatric health to advance knowledge about the causes, treatment and prevention of childhood diseases; and
- Training of medical students, pediatric residents, fellows and subspecialists.

Funding for the services above comes from Hospital operating income, Foundation philanthropy, CHGME and Federal awards and grants. The Medical Center has an established charity care policy and maintains records to identify and monitor the level of charity provided. These records include the estimated cost of unreimbursed services provided under its charity care policy and the excess of cost over reimbursement for Medicaid patients. The Medical Center also monitors the unreimbursed cost of patient bad debts. Because the Illinois All Kids program provides coverage for most Illinois uninsured children, the Medical Center has a relatively low number of requests for charity care.

The Medical Center determines the costs associated with providing charity care by aggregating the overall cost to charge ratio, including salaries, wages, benefits, supplies, and other operating expenses. The cost to charge ratio is then applied to the charity care charges to calculate the charity care cost amount reported below.

Costs of unreimbursed charity care and community benefit programs for fiscal 2017 and 2016 are as follows:

	<b>2017</b>	<b>2016</b>
Excess of allocated cost over reimbursement for services provided to Medicaid patients	\$ 144,783,126	\$ 134,157,433
Net benefit under the Illinois Hospital Assessment Program	<u>(42,439,621)</u>	<u>(40,047,670)</u>
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients, net of benefit under the Illinois Hospital Assessment Program	102,343,505	94,109,763
Estimated costs and expenses incurred to provide charity care	<u>2,023,981</u>	<u>1,255,994</u>
Unreimbursed cost of charity care	104,367,486	95,365,757
Cost of patient bad debts	4,971,302	4,209,735
Funds allocated to research from unrestricted funds	10,672,582	11,833,432
Resident and fellows expense	20,199,416	19,409,996
Community clinic support	3,334,635	3,204,870
Child advocacy programs	2,623,267	2,040,449
Family support and interpretation services	<u>8,781,287</u>	<u>8,627,673</u>
Total cost of unreimbursed charity care and community benefit programs	<u>\$ 154,949,975</u>	<u>\$ 144,691,912</u>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

The Medical Center also reports community benefits on the IRS Form 990 and the beneficial activities for the property affidavit. As a result of differences in definitions and criteria between these reports the amounts calculated per report will vary.

#### 4. Investments

The Medical Center maintains a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

As of August 31, 2017 and 2016, investments consisted of the following, which includes the current portion of the self-insurance trust of \$15,000,000 and \$17,175,000, respectively:

	2017	2016
Short-term investments	\$ 143,024,139	\$ 103,793,836
Common stock/mutual funds and common collective trusts	464,824,856	420,878,090
Alternative investments	393,942,108	368,420,503
U.S. Government and agency securities	119,586,186	66,223,690
Corporate and municipal bonds	211,948,463	227,033,297
Total investments	<u>\$ 1,333,325,752</u>	<u>\$ 1,186,349,416</u>

Short-term investments include cash and cash equivalents, certificates of deposit, money market funds, and securities with maturities due within one year.

Common stock and mutual funds include public equities traded in both domestic and international markets. U.S. Government and agency securities include debt obligations issued by the U.S. government or U.S. government agencies. Corporate and municipal bonds include investment grade debt obligations issued by U.S or foreign Corporations, U.S. State and local governments or U.S. territories. Common collective trusts include investment products that pool fiduciary client assets into a portfolio of stocks, bonds, or other securities and real assets.

Alternative investments include hedge funds and private equity investments. These include credit-oriented strategies, multi-strategy funds where the manager has a broad mandate to invest opportunistically, and event driven funds where managers seek opportunity in various forms of arbitrage strategies as well as in corporate activities such as mergers and acquisitions. The Medical Center's investment in private equity is committed under contract to periodically advance additional funding as capital calls are exercised. See Note 14. At August 31, 2017, \$37,426,000 had been advanced against a total commitment of \$107,500,000.

All Medical Center investments are invested with external managers.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

The Medical Center pools its unrestricted, board-designated and donor-restricted investments. As of August 31, 2017 and 2016, donor-restricted and unrestricted investments are as follows:

	2017	2016
<b>Donor-restricted investments and other assets limited as to use</b>		
Endowments	\$ 141,136,641	\$ 137,897,772
Specific purpose	210,108,339	180,551,589
Self-insurance trust	85,654,227	81,581,218
Interest in trustee-held funds	30,483,385	29,173,172
Interest in MCC and CIN	432,690	6,453,581
Total restricted investments	<u>467,815,282</u>	<u>435,657,332</u>
<b>Unrestricted investments</b>		
Undesignated and board-designated investments	<u>865,510,470</u>	<u>750,692,084</u>
Total unrestricted investments	<u>865,510,470</u>	<u>750,692,084</u>
Total investments	<u>\$ 1,333,325,752</u>	<u>\$ 1,186,349,416</u>

The composition and presentation of investment return as reflected in the accompanying consolidated statements of operation and change in net assets for the years ended August 31, 2017 and 2016 are as follows:

	2017	2016
<b>Unrestricted investment return</b>		
Interest and dividend income	\$ 13,094,423	\$ 11,217,036
Realized gains on sales of investments	23,896,365	13,615,902
Unrealized gains on investments	35,827,126	10,927,128
Alternative investment gains (loss)	26,958,538	(13,394,107)
Total unrestricted investment return	<u>\$ 99,776,452</u>	<u>\$ 22,365,959</u>
<b>Reported as</b>		
Board-designated endowment income	\$ 9,377,423	\$ 7,628,036
Other operating investment return	3,717,000	3,589,000
Nonoperating investment return gains	86,682,029	11,148,923
Total unrestricted investment return	<u>99,776,452</u>	<u>22,365,959</u>
<b>Temporarily and permanently restricted investment return</b>		
Interest and dividend income	1,918,574	1,735,665
Net realized and unrealized gains on investments	14,564,075	2,434,455
Total restricted investment return	<u>16,482,649</u>	<u>4,170,120</u>
Total investment return	<u>\$ 116,259,101</u>	<u>\$ 26,536,079</u>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

Typical redemption terms by asset class and type of investments include: short-term investments; common stock and mutual funds; alternative investments; and U.S. Government and agency securities; corporate and municipal bonds and common collective trust. Short-term investments and U.S. Government and agency securities; corporate and municipal bonds; and common collective trust have daily redemption terms and no restrictions. Common stock and mutual funds have daily to monthly redemption terms with notice periods of one to 10 days with no redemption restrictions. Alternative investments have monthly to annual redemption terms with varying notice periods, lock-up provisions ranging up to three years, and include private equity investments. A portion of hedge funds (alternative investments) are in side pockets with no redemptions permitted. Approximately \$925,000 and \$700,000 of this type of investment are in liquidating funds for fiscal 2017 and 2016, respectively.

### 5. Fair Value Measurements

The Medical Center follows the provisions of the FASB official pronouncement on Fair Value Measurements for financial instruments. The pronouncement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Medical Center for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1      Quoted prices in active markets for identical assets or liabilities.
  
- Level 2      Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
  
- Level 3      Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

The following table presents the investments carried at fair value as of August 31, 2017, by caption, including the current portion of the self-insurance trust of \$15,000,000, by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Investments Measured at NAV or Equivalent	Total
<b>Assets</b>					
Investments					
Short-term investments	\$ 109,957,836	\$ 26,027	\$ -	\$ 33,040,276	\$ 143,024,139
Common stock/collective trust and mutual funds	410,993,380	-	-	53,398,786	464,392,166
Alternative investments	-	-	632,083	393,310,026	393,942,109
U.S. Government and agency securities	-	119,586,186	-	-	119,586,186
Corporate and municipal bonds	19,688,819	192,259,644	-	-	211,948,463
Total assets at fair value	<u>\$ 540,640,035</u>	<u>\$ 311,871,857</u>	<u>\$ 632,083</u>	<u>\$ 479,749,088</u>	<u>\$ 1,332,893,062</u>

The following table presents the investments carried at fair value as of August 31, 2016, by caption, including the current portion of the self-insurance trust of \$17,175,000, by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Investments Measured at NAV or Equivalent	Total
<b>Assets</b>					
Investments					
Short-term investments	\$ 88,839,526	\$ -	\$ -	\$ 14,954,310	\$ 103,793,836
Common stock/collective trust and mutual funds	379,592,315	-	-	34,832,194	414,424,509
Alternative investments	-	-	533,548	367,886,955	368,420,503
U.S. Government and agency securities	-	66,223,690	-	-	66,223,690
Corporate and municipal bonds	18,364,858	208,668,439	-	-	227,033,297
Total assets at fair value	<u>\$ 486,796,699</u>	<u>\$ 274,892,129</u>	<u>\$ 533,548</u>	<u>\$ 417,673,459</u>	<u>\$ 1,179,895,835</u>

The tables above do not include interest in MCC and CIN.

Investments measured at fair value using net assets value per share (or equivalent) as a practical expedient were not classified in the fair value hierarchy, rather the amounts are presented to enable reconciliation of the fair value tables to the investments fair value line items presented in the consolidated balance sheets.

In reclassifying the investments fair value hierarchy table as of August 31, 2016 to compare with the adoption of ASU 2015-07 discussed in Note 2; \$14,954,000 in short term investments were reclassified from Level 1 to NAV; \$34,090,000 in alternative investments were reclassified from Level 2 to NAV; and \$333,797,000 in alternative investments were reclassified from Level 3 within the fair value hierarchy to NAV as a practical expedient.

During fiscal year 2016, \$34,832,000 of investments was reclassified from common stock/collective trust and mutual funds Level 2 to NAV. \$534,000 of common stock/collective trust and mutual funds Level 1 were reclassified to alternative investments Level 3. \$6,186,000 were reclassified from corporate and municipal bonds to U.S. government and agency securities; \$6,811,000 were reclassified from short-term investments to common stock/collective trust and mutual funds.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

The following table is a rollforward of the August 31, 2017 and 2016 balance sheet amounts for financial instruments classified by the Medical Center within Level 3 of the fair value hierarchy.

	<b>Level 3 Assets Alternative Investments</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Balance at Beginning of Year	\$ 533,548	\$ -
Reclassification from Level 1 to Level 3	-	517,542
Total net unrealized gain	16,540	16,006
Purchases	81,995	-
Balance at End of Year	<u>\$ 632,083</u>	<u>\$ 533,548</u>

The following is a description of the Medical Center's valuation methodologies for investments measured at fair value.

Fair value for short term investments (consisting of cash and equivalents), corporate stocks, international stocks, and mutual funds are measured using quoted market prices or NAV per share at the reporting date multiplied by the quantity held.

U.S. Government bonds and agency securities, corporate bonds, municipal bonds and mortgage and asset backed securities are measured using recent bid prices or average of bid/ask prices. Common collective trusts are measured using NAV.

The Medical Center has certain investments, principally limited liability corporations, partnerships, and absolute return strategy funds for which a portion of quoted market prices are not available. These investments are classified as alternative investments. The value of these alternative investments represents the ownership interest in the net asset value of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value nor reflective of future fair values. While the Medical Center 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 as of the reporting date. The significant unobservable inputs used in the fair value measurement of the Medical Center's partnership investments include a combination of cost, discounted cash flow analysis, industry comparables and outside appraisals. Significant increases or decreases in any inputs used by investment managers in determining net asset values in isolation would result in a significantly lower or higher fair value measurement. Management has not developed quantitative inputs nor adjusted the fair values obtained from general partners for the alternative investments.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

### 6. Endowments

The Medical Center's endowment fund consists of individual donor-restricted endowment funds and funds designated by its Board to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Illinois passed the 'Uniform Prudent Management of Institutional Funds Act' ("UPMIFA"). The Medical Center has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as a temporarily restricted net asset until amounts are appropriated for expenditure by the Medical Center in a manner consistent with the donor intent and standard of prudence prescribed by UPMIFA. Where the Board designates unrestricted funds to function as endowments they are classified as unrestricted net assets.

The Medical Center had the following board-designated and donor-restricted endowment balances during the year ended August 31, 2017 delineated by net asset class:

	<b>Board Designated Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at beginning of year</b>	<u>\$ 179,269,000</u>	<u>\$ 69,597,106</u>	<u>\$ 167,652,660</u>	<u>\$ 416,518,766</u>
Investment return				
Investment income	-	1,918,574	-	1,918,574
Realized and unrealized gain	-	13,350,807	1,310,213	14,661,020
Total investment return	-	15,269,381	1,310,213	16,579,594
Contributions	-	-	5,659,378	5,659,378
Spend rate allocation	5,354,340	-	-	5,354,340
Appropriation of endowment assets for expenditure	(4,220,634)	(6,290,569)	-	(10,511,203)
Other	55,923	(1,781,348)	259,034	(1,466,392)
<b>Endowment net assets at end of year</b>	<u>\$ 180,458,629</u>	<u>\$ 76,794,570</u>	<u>\$ 174,881,285</u>	<u>\$ 432,134,483</u>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only):

	Temporarily Restricted	Permanently Restricted	Total
Restricted for Research	\$ 20,520,292	\$ 31,142,990	\$ 51,663,282
Restricted for Pediatric Programs	56,274,278	143,738,294	200,012,572
	<u>\$ 76,794,570</u>	<u>\$ 174,881,284</u>	<u>\$ 251,675,854</u>

The Medical Center had the following board-designated and donor-restricted endowment balances during the year ended August 31, 2016 delineated by net asset class:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at beginning of year</b>	<u>\$ 176,999,708</u>	<u>\$ 71,811,836</u>	<u>\$ 163,033,249</u>	<u>\$ 411,844,793</u>
Investment return				
Investment income	-	1,735,665	-	1,735,665
Realized and unrealized gain	-	2,167,118	267,337	2,434,455
Total investment return	-	3,902,783	267,337	4,170,120
Contributions	-	-	3,537,604	3,537,604
Spend rate allocation	5,327,733	-	-	5,327,733
Appropriation of endowment assets for expenditure	(4,129,038)	(5,873,928)	-	(10,002,966)
Other	1,070,597	(243,585)	814,470	1,641,482
<b>Endowment net assets at end of year</b>	<u>\$ 179,269,000</u>	<u>\$ 69,597,106</u>	<u>\$ 167,652,660</u>	<u>\$ 416,518,766</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only):

	Temporarily Restricted	Permanently Restricted	Total
Restricted for Research	\$ 17,910,983	\$ 13,658,383	\$ 31,569,366
Restricted for Pediatric Programs	51,686,123	153,994,277	205,680,400
	<u>\$ 69,597,106</u>	<u>\$ 167,652,660</u>	<u>\$ 237,249,766</u>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### Investment and Spend Rate Policies

The Medical Center has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of endowment assets. To achieve its long-term rate of return objectives, the Medical Center 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). An endowment spend rate is established by management and approved annually by the Investment Committee of the Board of the Medical Center, which considers the following factors, specified by UPMIFA:

- The duration and preservation of the endowment
- The Medical Center's institutional mission and purpose of its endowed funds
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments
- Other available resources of the Medical Center
- The investment policy of the Medical Center

The spend rate for endowment funds in fiscal 2017 and 2016 was 4%. Management and the Board have determined that excess investment return may be spent, consistent with the donor's intention, to support hospital and faculty practice plan growth and operations. Any spending of the excess reserve outside the normal annual spend rate must be approved by the Executive Committee of the Medical Center. For new endowed funds (not more than five years old), the Investment Committee may in one or more particular years apply a lower spend rate and/or appreciation allocation, if the Investment Committee deems it prudent to do so.

Substantially all temporarily and permanently restricted net assets are restricted for research and programs. Substantially all net assets released from restrictions in fiscal 2017 and 2016 are related to expenses incurred for research and programs.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

### 7. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents. The mix of receivables from patients and third-party payors at August 31, 2017 and 2016, was as follows:

	2017	2016
Managed Care	35 %	39 %
Illinois Medicaid	27	24
Medicaid Managed Care	33	28
Patient Self-Pay	3	3
Commercial Insurance	1	5
Other (Medicare, Tri-Care, out-of-state Medicaid)	1	1
	<u>100 %</u>	<u>100 %</u>

During fiscal year 2017 and 2016, the Medical Center's mix of accounts receivable shifted from Managed Care to Illinois Medicaid. Medicaid and Medicaid Managed Care has grown from 52% at August 31, 2016 to 60% at August 31, 2017. As a result of the State of Illinois' financial condition and a lack of state budget for the majority of both fiscal years, the state slowed Medicaid payments to healthcare providers as well as payments to Medicaid Managed Care companies who delayed payment to healthcare providers.

A summary of utilization based upon gross patient service revenue for the years ended August 31, 2017 and 2016 is as follows:

	2017	2016
Managed Care	48 %	47 %
Illinois Medicaid	17	18
Medicaid Managed Care	32	31
Other (Medicare, Tri-Care, out-of-state Medicaid)	1	1
Patient Self-Pay	1	1
Commercial Insurance	1	2
	<u>100 %</u>	<u>100 %</u>

### 8. Retirement Plans

The Medical Center has retirement plans covering substantially all full-time employees, including employees of affiliated corporations. The Medical Center has two defined contribution plans available to eligible employees and a frozen noncontributory defined benefit plan, the Value Growth Plan ('VGP').

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

There is a 403(b) defined contribution plan available only to eligible pediatric faculty within PFF and the Hospital's plan available to all other eligible employees of the Medical Center. Participants of the PFF plan are required to make mandatory contributions of 5 percent of compensation. Each year that a mandatory contribution is made by a participant, PFF will make a matching contribution equal to 10 percent of compensation.

All non-PFF employees, who have worked more than 1,000 hours in a calendar year and elect to participate are considered participants of the Hospital's plan. Participants of the Hospital plan may participate in a 403(b) defined contribution plan by entering into a salary reduction agreement to contribute a percentage of their compensation to the plan. The Hospital matches 100 percent of the employee's contribution up to 5 percent of compensation.

The Medical Center's matching expense under both defined contribution plans totaled \$21,798,000 and \$20,207,000 in fiscal 2017 and 2016, respectively.

The VGP defined benefit plan is a cash balance plan and was frozen effective January 1, 2014. Previously accrued balances will continue to accrue interest; however, no further credits to these balances will be made. The interest, or earnings credit rate, is generally 4.5 percent annually.

The Medical Center also sponsors a nonqualified supplemental defined benefit retirement plan (SERP) for certain key executives. The plan is not funded and, therefore, has no plan assets. Benefits under the SERP are paid when incurred from the Medical Center's unrestricted net assets.

Further, write downs of \$549,000 and \$1,032,000 was recognized which represented a portion of the previously unrecognized losses of the plan as of August 31, 2017 and 2016, respectively.

Effective as of January 1, 2017, the Medical Center sponsors a nonqualified Defined Contribution SERP for certain key executives. Under this plan, the accrued obligations are determined as of December 31 of each year using 14% of participants' gross pay reduced by employer match on qualified plan. The plan has vesting service period of 5 years or attainment of age of 62. The Medical Center has not determined its expense, liability and funding under this plan as of August 31, 2017. Plan Management does not expect any material financial impact on the consolidated financial statements.

Pension expense for the VGP and nonqualified SERP plan as determined by an independent actuary, includes the following components:

	SERP		VGP	
	2017	2016	2017	2016
Service cost, benefits earned during the year	\$ 93,018	\$ 133,740	\$ -	\$ -
Interest on projected benefit obligation	155,709	240,004	6,524,323	7,453,563
Expected return on assets	-	-	(11,637,234)	(11,390,521)
Amortization of actuarial loss	364,255	509,366	1,287,330	926,517
Amortization of prior service cost	177,565	177,565	109,660	109,660
Pension Settlement	548,719	1,032,188	-	-
Total pension related expense	\$ 1,339,266	\$ 2,092,863	\$ (3,715,921)	\$ (2,900,781)

**Children's Hospital of Chicago Medical Center and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**August 31, 2017 and 2016**

The funded status of the VGP and nonqualified SERP plan at the end of the year was as follows:

	SERP		VGP	
	2017	2016	2017	2016
<b>Funded status at end of year</b>				
Projected benefit obligation	\$ (7,488,343)	\$ (4,660,983)	\$ (187,306,430)	\$ (196,184,002)
Plan assets at fair market value	-	-	176,505,795	162,167,838
Deficiency of plan assets over projected benefit obligation	\$ (7,488,343)	\$ (4,660,983)	\$ (10,800,635)	\$ (34,016,164)
<b>Amounts recognized in the consolidated balance sheet consist of</b>				
Current liability	\$ (1,308,059)	\$ (970,982)	\$ -	\$ -
Noncurrent liability	(6,180,284)	(3,690,001)	(10,800,635)	(34,016,164)
	\$ (7,488,343)	\$ (4,660,983)	\$ (10,800,635)	\$ (34,016,164)

All previously unrecognized actuarial gains and losses and prior service costs are reflected in the consolidated balance sheets. An estimate of \$1,939,000 and \$1,723,000 of this amount is included as a component of pension expense in fiscal 2017 and 2016, respectively.

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in 2018 are as follows:

	SERP	VGP
Actuarial loss	\$ 976,911	\$ 857,655
Prior service cost	88,333	109,660
Transition (asset) or obligation	-	-
Total	\$ 1,065,244	\$ 967,315

The change in the projected benefit obligation during fiscal 2017 and 2016 is summarized as follows:

	SERP		VGP	
	2017	2016	2017	2016
<b>Projected benefit obligation at beginning of measurement year</b>	\$ 4,660,983	\$ 6,709,050	\$ 196,184,002	\$ 175,589,136
Service cost	93,018	133,740	-	-
Interest cost	155,709	240,004	6,524,323	7,453,563
Actuarial loss (gain)	3,670,870	221,354	(8,203,306)	20,341,756
Benefits paid	(1,092,237)	(2,643,165)	(7,198,589)	(7,200,453)
<b>Projected benefit obligation at end of measurement year</b>	\$ 7,488,343	\$ 4,660,983	\$ 187,306,430	\$ 196,184,002

The projected benefit obligation and accumulated benefit obligation for the VGP was \$187,306,000 and \$196,184,000 at August 31, 2017 and 2016, respectively. The accumulated benefit obligation for the SERP plan was \$6,194,000 and \$3,907,000 at August 31, 2017 and 2016, respectively.

**Children's Hospital of Chicago Medical Center and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**August 31, 2017 and 2016**

The change in plan assets during fiscal 2017 and 2016 is summarized as follows:

	<b>VGP</b>	
	<b>2017</b>	<b>2016</b>
<b>Plan assets, at fair value at beginning of measurement year</b>	\$ 162,167,838	\$ 148,518,459
Actual return on plan assets	21,536,546	15,849,832
Employer contributions	-	5,000,000
Benefits paid	<u>(7,198,589)</u>	<u>(7,200,453)</u>
<b>Plan assets, at fair value at end of measurement year</b>	<b><u>\$ 176,505,795</u></b>	<b><u>\$ 162,167,838</u></b>

The following table presents the plan investments carried at fair value as of August 31, 2017, by caption, by the valuation hierarchy defined in Note 5:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV or Equivalent</b>	<b>Total</b>
<b>Assets</b>					
Investments					
Short-term investments	\$ -	\$ -	\$ -	\$ 533,101	\$ 533,101
Common stock	49,645,041	12,482,890	-	-	62,127,931
Alternative investments	-	-	-	31,802	31,802
Other Fixed Income	-	-	-	113,812,961	113,812,961
Total assets at fair value	<u>\$ 49,645,041</u>	<u>\$ 12,482,890</u>	<u>\$ -</u>	<u>\$ 114,377,864</u>	<u>\$ 176,505,795</u>

The following table presents the plan investments carried at fair value as of August 31, 2016, by caption, by the valuation hierarchy defined in Note 5:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV or Equivalent</b>	<b>Total</b>
<b>Assets</b>					
Investments					
Short-term investments	\$ -	\$ -	\$ -	\$ 704,752	\$ 704,752
Common stock	72,361,829	17,809,797	-	-	90,171,626
Alternative investments	-	-	-	1,584,559	1,584,559
Other Fixed Income	-	-	-	69,706,901	69,706,901
Total assets at fair value	<u>\$ 72,361,829</u>	<u>\$ 17,809,797</u>	<u>\$ -</u>	<u>\$ 71,996,212</u>	<u>\$ 162,167,838</u>

Investments measured at fair value using net assets value per share (or equivalent) as a practical expedient were not classified in the fair value hierarchy, rather the amounts are presented to enable reconciliation of the fair value tables to the investments fair value line items presented in the plan assets.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

In reclassifying the investments fair value hierarchy table as of August 31, 2016 to compare with the adoption of ASU 2015-07 discussed in Note 2, \$705,000 in short term investments were reclassified from Level 1 to NAV; \$69,707,000 in other fixed income were reclassified from Level 2 to NAV; and \$1,585,000 in alternative investments were reclassified from Level 3 within the fair value hierarchy to NAV as a practical expedient.

The Medical Center's pension plan weighted-average asset allocation at August 31, 2017 and 2016, by asset category is as follows:

	2017	2016
<b>Asset category</b>		
Return-seeking assets	35 %	56 %
Liability-hedging assets	65 %	44 %
	<u>100 %</u>	<u>100 %</u>

The Medical Center's pension plan assets are invested with external managers and asset allocation is determined using a liability-hedging approach. Pension plan assets are invested in two pools: return-seeking assets and liability-hedging assets. The target allocation between return-seeking assets and liability-hedging assets changes based on a predetermined glide path policy as the plan's funded status changes.

Under the liability-hedging approach, the purpose of the return-seeking assets is to generate long-term asset growth for the pension plan. Return-seeking assets generally consist of equity securities including public equities traded in both domestic and international markets, invested in accordance with the target allocations listed below:

The objective of holding liability-hedging assets is to dampen the plan's surplus volatility. High-quality investment grade bonds with durations that approximate the durations of the liabilities are most commonly used for liability-hedging assets.

There are no plans to make contributions to the pension plans in fiscal year 2017. Estimated future pension benefit payments for the next ten years are as follows:

	SERP	VGP	Total
<b>Years Ending August 31,</b>			
2018	\$ 1,308,059	\$ 10,841,863	\$ 12,149,922
2019	480,558	9,993,653	10,474,211
2020	1,451,008	10,032,000	11,483,008
2021	3,459,759	10,577,997	14,037,756
2022	839,799	10,571,704	11,411,503
2023-2027	1,946,737	48,935,252	50,881,989
	<u>\$ 9,485,920</u>	<u>\$ 100,952,469</u>	<u>\$ 110,438,389</u>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

Weighted-average assumptions used to determine benefit obligations at August 31, 2017 and 2016 are as follows:

	SERP		VGP	
	2017	2016	2017	2016
Discount rate	2.2%	3.5%	3.7%	3.5%
Rate of compensation increase	4.0	4.0	n/a	n/a

Weighted-average assumptions used to determine net periodic pension benefit cost in fiscal 2017 and 2016 are as follows:

	SERP		VGP	
	2017	2016	2017	2016
Discount rate	3.5%	4.4%	3.5%	4.4%
Expected return on plan assets	n/a	n/a	7.5	8.0
Rate of compensation increase	4.0	4.0	n/a	n/a

The discount rate was determined by constructing hypothetical yield curves based on yields of corporate bonds rated AA quality. The expected rate of return on plan assets was determined by using the historical return on the various asset classes in which the plan invests.

For the VGP plan, both years were significantly impacted by the investment returns and discount rates noted in the tables above.

### 9. Long-Term Debt

In May 2008, the Illinois Finance Authority issued \$553,490,000 of Series 2008 Bonds on behalf of the Hospital. The issue included \$212,000,000 of Insured Revenue Bonds Series 2008A and ('Series 2008A') \$168,000,000 of Revenue Bonds Series 2008B ('Series 2008B'), \$86,745,000 of Variable Rate Demand Revenue Bonds Series 2008C ('Series 2008C'), and \$86,745,000 of Variable Rate Demand Revenue Bonds Series 2008D ('Series 2008D'), (collectively, the 'Series 2008 Bonds'). The proceeds of the Series 2008A and Series 2008B bonds were primarily for the construction of the Ann & Robert H. Lurie Children's Hospital of Chicago. The proceeds of the Series 2008C and 2008D bonds were used to refund previously outstanding bonds and pay certain expenses in connection with the issuance of the Series 2008C/D Bonds. Series 2008C and 2008D were redeemed prior to maturity and are no longer outstanding.

In May 2017, the Illinois Finance Authority issued \$135,480,000 of Revenue Refunding Bonds, ('Series 2017') at a premium totaling \$13,416,000 with an equity contribution of \$11,411,000 on behalf of the Hospital. The proceeds of the Series 2017 bonds were used to refund the \$148,900,000 par amount of the Revenue Bonds Series 2008B. The Medical Center recorded a debt refinancing loss of \$9,329,000 in extinguishment of the Series 2008B Bonds as a nonoperating item in the consolidated statement of operation and change in net asset as of August 31, 2017. There are no significant changes to the underlying covenants in the Master Trust Indenture. As of August 31, 2017 \$5,150,000 of Series 2008B principal is outstanding.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

The Medical Center's long-term bonds are issued under a Master Trust Indenture ('Indenture') dated May 1, 2008, as amended and restated. Obligations under the Indenture are collateralized by a pledge of the unrestricted receivables of the Obligated Group, which consists of the Hospital and the Foundation (the 'Obligated Group') Series 2008A, 2008B and 2017 are the only outstanding bonds of the Medical Center. The chart below outlines debt as of August 31, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Illinois Finance Authority insured revenue bonds, Series 2008A, fixed interest rate ranging from 5.00% to 5.25% (discount based on imputed interest rate of 5.27% ), maturing annually in principal amounts ranging from \$3,235,000 in August 2028 to \$23,340,000 in August 2047.	\$ 212,000,000	\$ 212,000,000
Illinois Finance Authority revenue bonds, Series 2008B, fixed interest rate ranging from 5.25% to 5.50%.	5,150,000	158,940,000
Illinois Finance Authority revenue bonds, Series 2017, fixed interest rate ranging from 4.00% to 5.00% (premium based on imputed interest rate of 3.62% ), maturing annually in principal amounts ranging from \$5,115,000 in August 2019 to \$12,665,000 in August 2037.	135,480,000	-
Total debt outstanding	<u>352,630,000</u>	<u>370,940,000</u>
Unamortized premium/(discount)	11,199,422	(2,075,085)
Less: Debt issuance costs	<u>(5,746,026)</u>	<u>(6,525,440)</u>
Long-term debt	<u>\$ 358,083,396</u>	<u>\$ 362,339,475</u>
	<b>2017</b>	<b>2016</b>
Current portion	\$ 5,150,000	\$ 4,890,000
Long-term portion	<u>347,480,000</u>	<u>366,050,000</u>
Total principal outstanding at par value	<u>\$ 352,630,000</u>	<u>\$ 370,940,000</u>

The estimated fair value of the Medical Center's total debt outstanding was approximately \$377,593,000 as of August 31, 2017. This estimate is based on market interest rates and other relevant information and input from financial advisors and are classified as Level 2 in the fair market value hierarchy.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

Future maturities of total outstanding debt at August 31, 2017, are as follows:

<b>Years Ending August 31,</b>	
2018	\$ 5,150,000
2019	5,115,000
2020	5,375,000
2021	5,640,000
2022	5,920,000
Thereafter	<u>325,430,000</u>
	<u>\$ 352,630,000</u>

The Obligated Group is subject to various nonfinancial and financial covenants. The Obligated Group was in compliance with its debt covenants as of August 31, 2017 and 2016.

One outstanding letter of credit supporting the construction of the hospital in Streeterville totaling \$597,000 reduces this available balance. The Medical Center also has a letter of credit outstanding for the debt service reserve fund of \$1,004,000. As of August 31, 2017, the Medical Center had line of credit agreements with three commercial banks for \$45,000,000, \$30,000,000 and \$25,000,000. There were no amounts outstanding or borrowings made under the lines of credit during 2017 or 2016.

### 10. Operating Leases

The Medical Center leases certain buildings, office space, parking, and equipment under non-cancelable operating leases. Rental expenses associated with these leases were approximately \$14,056,000 and \$12,495,000 in 2017 and 2016, respectively, including minimum monthly payments and additional usage charges under equipment leases. The schedule below does not include the impact of any tenant allowances and any rent abatement on payments.

Approximate minimum future payments under non-cancelable lease obligations at August 31, 2017, are as follows:

<b>Years Ending August 31,</b>	
2018	\$ 10,265,597
2019	10,541,746
2020	10,247,168
2021	10,343,024
2022	10,319,557
Thereafter	<u>65,376,353</u>
	<u>\$ 117,093,445</u>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### 11. Professional and General Liability Insurance

The Medical Center maintains a program of self-insurance for professional and general liability risks. This program is maintained on behalf of all Medical Center affiliates and employees including the employed physicians of PFF, LCMG and LCPC and the non-employed affiliated physicians in the Children's Hospital of Chicago Faculty Practice Plan who are members of Children's Surgical Foundation and Pediatric Anesthesia Associates. More than 600 hospital-based physicians are covered by this program.

The Medical Center self-insures the first losses for both professional and general liability claims. The estimated liability for self-insured claims and the required funding for the trust are determined annually by an independent actuary and are based upon case reserves and actuarial estimates for claims that have been incurred but not yet reported. The self-insured portion of the program is administered by an independent trustee.

The Medical Center incurred approximately \$28,000,000 and \$26,500,000 in expense for fiscal 2017 and 2016, respectively, for self-insured professional and general liability risk. The Medical Center's self-insurance liability has been discounted at 5% in fiscal 2017 and 2016. The effect of discounting the value of estimated liabilities was approximately \$14,500,000 and \$14,496,000 at August 31, 2017 and 2016, respectively.

In addition to the self-insured portion, the Medical Center purchases commercial insurance for claims in excess of the self-insurance limits. These excess insurance policies, which are claims-made, are purchased through CMMC Insurance.

CMMC Insurance writes the professional and general liability insurance for the Hospital and its affiliates. CMMC Insurance, in turn, purchases reinsurance equal to 100 percent of its exposure and, therefore, holds no risk on its own books. For the years ended August 31, 2017 and 2016, premiums ceded to reinsurers were \$1,932,000 and \$1,501,000, respectively, and reinsurance recoveries on unpaid losses on an undiscounted basis, were \$32,667,000 and \$42,064,000, respectively. CMMC Insurance is operated to break even after all expenses.

### 12. Transactions With Related Parties

Certain of the Medical Center's affiliated physicians participate in independent physician faculty practice plan corporations. At August 31, 2017 and 2016, amounts due from the physician practice groups totaled approximately \$2,011,000 and \$2,048,000, respectively, a portion of which is included in other current assets and other assets.

The Medical Center paid approximately \$5,100,000 in both fiscal 2017 and 2016, for administration, supervision, teaching, and patient care services provided by these independent physicians, which is included in supplies and services expense.

The Medical Center billed such independent physician group practice corporations \$9,751,000 and \$7,475,000 in fiscal 2017 and 2016, respectively, for certain expenses, such as personnel expenses, supplies and services, and professional liability insurance, incurred on their behalf, which is included in other operating revenue.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

### 13. Functional Expenses

The Medical Center provides health care services to children and conducts research and programs within its geographic region. Expenses, excluding interest and including fundraising (which are reported as nonoperating activities), related to providing these services, research, and programs were as follows:

	2017	2016
Patient care services	\$ 709,620,016	\$ 654,000,662
General and administrative	140,274,473	121,627,396
Research and programs	56,777,121	57,722,738
Fundraising	16,361,679	17,283,228
Medicaid Assessment Program Tax (Note 2)	19,218,966	16,526,308
	<u>\$ 942,252,255</u>	<u>\$ 867,160,332</u>

### 14. Commitments and Contingencies

#### Health Care Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations create a possibility of repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Management believes that the Medical Center is in compliance, in all material respects, with fraud and abuse statutes, as well as with other applicable government laws and regulations. While no regulatory inquiries have been made, that are expected to have a material effect on the consolidated financial statements, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. The Medical Center had a recent review by CMS. The Medical Center has two open corrective action plans that have been submitted to CMS and is awaiting feedback. The Medical Center does not anticipate any material impact from these open corrective action plans.

#### Litigation

There are several lawsuits, pending claims, and incidents that occurred in the past whereby claims have been made and may be asserted against the Medical Center for which the ultimate liability, if any, cannot be reasonably estimated. Management believes that the ultimate settlement of these claims will not have a material adverse effect upon the Medical Center's consolidated financial position or results of operations.

#### Property, Plant and Equipment

During fiscal 2016, the Medical Center entered into a \$160,000,000 commitment to contribute to the total cost of a new research tower being built in conjunction with Northwestern University. The Medical Center will have title to four floors and a proration of the public space. The building is under construction and as of August 31, 2017, \$80,577,000 has been spent life to date and is included in construction in progress on the balance sheet.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Notes to Consolidated Financial Statements

August 31, 2017 and 2016

---

The Medical Center obtained a certificate of need for the buildout of an ambulatory surgery treatment center ('ASTC') and additional beds within the hospital during fiscal 2017. Construction in progress has increased reflecting the commencement of these activities on the 22<sup>nd</sup> floor of the Streeterville location and the ASTC.

### **Investments**

The Medical Center has contractual commitments totaling \$107,500,000 with its private equity investment funds. As of August 31, 2017, the Medical Center's remaining capital commitments are \$70,074,000. Future capital calls are expected to occur over the next several years and will be initiated by the general partner of the investment as investments are made by the funds.

### **Asset Retirement Obligation**

An asset retirement obligation represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

The Medical Center has evaluated its leased and owned properties for potential asset retirement obligations. Based on this review, the Medical Center identified obligations primarily related to the removal of certain materials previously utilized in the construction process. The total retirement obligation recognized as of August 31, 2017 and 2016, was \$406,000 and \$396,000, respectively, which is recorded as accrued expenses in the consolidated balance sheets. A \$3,211,000 asset retirement obligation was released in conjunction with the sale of the Lincoln Park Property in fiscal 2016.

### **15. Subsequent Event**

The Medical Center has evaluated all events and transactions that occurred after the balance sheet date and through the date that the consolidated financial statements were issued and nothing that requires recognition or disclosure was noted.

## **Supplemental Information**

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidating Balance Sheet

### August 31, 2017

	Ann & Robert H. Lurie Children's Hospital of Chicago	Ann & Robert H. Lurie Children's Hospital of Chicago Foundation	Eliminating Entries	Obligated Group	Stanley Manne Children's Research Institute	Pediatric Faculty Foundation	Lurie Children's Medical Group LLC	Almost Home Kids	Children's Hospital of Chicago Medical Center	CMMC Insurance Co. Ltd	Lurie Children's Health Partners Care Coordination	Lurie Children's Primary Care	Eliminating Entries	Total
<b>Assets</b>														
<b>Current assets</b>														
Cash and cash equivalents	\$ 30,170,875	\$ -	\$ -	\$ 30,170,875	\$ -	\$ -	\$ 5,258,225	\$ 6,200	\$ -	\$ 207,589	\$ -	\$ -	\$ -	\$ 35,642,889
Current portion of self-insurance trust	15,000,000	-	-	15,000,000	-	-	-	-	-	-	-	-	-	15,000,000
Accounts receivable, net of allowance for uncollectible accounts of \$25,991,000	148,711,818	-	-	148,711,818	-	13,814,828	2,701,109	1,813,796	-	-	465	403,962	-	167,445,978
Other current assets	38,683,883	745,200	-	39,429,083	278,459	5,160,900	496,213	50,172	76,025	34,607,080	299,571	655,797	-	81,053,300
<b>Total current assets</b>	<b>232,566,576</b>	<b>745,200</b>	<b>-</b>	<b>233,311,776</b>	<b>278,459</b>	<b>18,975,728</b>	<b>8,455,547</b>	<b>1,870,188</b>	<b>76,025</b>	<b>34,814,669</b>	<b>300,036</b>	<b>1,059,759</b>	<b>-</b>	<b>299,142,167</b>
<b>Investments</b>														
	1,318,325,752	-	-	1,318,325,752	-	-	-	-	120,000	-	-	-	(120,000)	1,318,325,752
<b>Property and equipment, at cost</b>														
	1,285,651,578	1,614,953	-	1,287,266,531	134,025,143	-	-	2,204,366	-	-	-	3,504,599	-	1,427,000,639
<b>Less: Accumulated depreciation</b>														
	447,673,761	1,614,953	-	449,288,714	32,431,114	-	-	441,745	-	-	-	804,260	-	482,965,833
<b>Total property and equipment, net</b>	<b>837,977,817</b>	<b>-</b>	<b>-</b>	<b>837,977,817</b>	<b>101,594,029</b>	<b>-</b>	<b>-</b>	<b>1,762,621</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,700,339</b>	<b>-</b>	<b>944,034,806</b>
<b>Other assets</b>														
Pledges receivable restricted by donors, net	27,014,628	-	-	27,014,628	-	-	-	-	-	-	-	-	-	27,014,628
Goodwill	-	-	-	-	-	-	-	-	-	-	-	1,417,706	-	1,417,706
Other assets	17,996,711	-	-	17,996,711	-	-	-	-	-	-	-	-	-	17,996,711
<b>Total other assets</b>	<b>45,011,339</b>	<b>-</b>	<b>-</b>	<b>45,011,339</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,417,706</b>	<b>-</b>	<b>46,429,045</b>
<b>Total assets</b>	<b>\$ 2,433,881,484</b>	<b>\$ 745,200</b>	<b>\$ -</b>	<b>\$ 2,434,626,684</b>	<b>\$ 101,872,488</b>	<b>\$ 18,975,728</b>	<b>\$ 8,455,547</b>	<b>\$ 3,632,789</b>	<b>\$ 196,025</b>	<b>\$ 34,814,669</b>	<b>\$ 300,036</b>	<b>\$ 5,177,804</b>	<b>\$ (120,000)</b>	<b>\$ 2,607,931,770</b>
<b>Liabilities and Net Assets</b>														
<b>Current liabilities</b>														
Accounts payable and accrued expenses	\$ 121,942,617	\$ 3,130,100	\$ -	\$ 125,072,717	\$ 5,459,690	\$ 9,002,640	\$ 4,444,086	\$ 473,159	\$ -	\$ 34,671,140	\$ 807	\$ 1,464,405	\$ -	\$ 180,588,644
Current portion of self-insurance liability	15,000,000	-	-	15,000,000	-	-	-	-	-	-	-	-	-	15,000,000
Due to third-party payors	41,740,718	-	-	41,740,718	-	2,561,008	806,594	-	-	-	-	-	-	45,108,320
Current portion of long-term debt	5,150,000	-	-	5,150,000	-	-	-	-	-	-	-	-	-	5,150,000
<b>Total current liabilities</b>	<b>183,833,335</b>	<b>3,130,100</b>	<b>-</b>	<b>186,963,435</b>	<b>5,459,690</b>	<b>11,563,648</b>	<b>5,250,680</b>	<b>473,159</b>	<b>-</b>	<b>34,671,140</b>	<b>807</b>	<b>1,464,405</b>	<b>-</b>	<b>245,846,964</b>
<b>Other liabilities</b>														
Self-insurance liability	89,622,319	-	-	89,622,319	-	-	-	-	-	-	-	-	-	89,622,319
Other noncurrent liabilities	35,000,083	-	-	35,000,083	-	-	-	316,630	-	-	-	-	-	35,316,713
<b>Total other liabilities</b>	<b>124,622,402</b>	<b>-</b>	<b>-</b>	<b>124,622,402</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>316,630</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>124,939,032</b>
<b>Long-term debt</b>	<b>352,933,396</b>	<b>-</b>	<b>-</b>	<b>352,933,396</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>352,933,396</b>
<b>Total liabilities</b>	<b>661,389,133</b>	<b>3,130,100</b>	<b>-</b>	<b>664,519,233</b>	<b>5,459,690</b>	<b>11,563,648</b>	<b>5,250,680</b>	<b>789,789</b>	<b>-</b>	<b>34,671,140</b>	<b>807</b>	<b>1,464,405</b>	<b>-</b>	<b>723,719,392</b>
<b>Stockholder's equity</b>														
Common stock	-	-	-	-	-	-	-	-	-	120,000	-	-	(120,000)	-
Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-	-	-	-	23,529	-	-	(23,529)	-
<b>Total stockholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>143,529</b>	<b>-</b>	<b>-</b>	<b>(143,529)</b>	<b>-</b>
<b>Net assets</b>														
Unrestricted	1,363,849,039	(2,384,900)	-	1,361,464,139	96,412,798	7,412,080	3,204,867	2,843,000	196,025	-	299,229	3,713,399	23,529	1,475,569,066
Temporarily restricted	233,762,028	-	-	233,762,028	-	-	-	-	-	-	-	-	-	233,762,028
Permanently restricted	174,881,284	-	-	174,881,284	-	-	-	-	-	-	-	-	-	174,881,284
<b>Total net assets</b>	<b>1,772,492,351</b>	<b>(2,384,900)</b>	<b>-</b>	<b>1,770,107,451</b>	<b>96,412,798</b>	<b>7,412,080</b>	<b>3,204,867</b>	<b>2,843,000</b>	<b>196,025</b>	<b>-</b>	<b>299,229</b>	<b>3,713,399</b>	<b>23,529</b>	<b>1,884,212,378</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,433,881,484</b>	<b>\$ 745,200</b>	<b>\$ -</b>	<b>\$ 2,434,626,684</b>	<b>\$ 101,872,488</b>	<b>\$ 18,975,728</b>	<b>\$ 8,455,547</b>	<b>\$ 3,632,789</b>	<b>\$ 196,025</b>	<b>\$ 34,814,669</b>	<b>\$ 300,036</b>	<b>\$ 5,177,804</b>	<b>\$ (120,000)</b>	<b>\$ 2,607,931,770</b>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidating Balance Sheet

### August 31, 2016

	Ann & Robert H. Lurie Children's Hospital of Chicago	Ann & Robert H. Lurie Children's Hospital of Chicago Foundation	Eliminating Entries	Obligated Group	Stanley Manne Children's Research Institute	Pediatric Faculty Foundation	Lurie Children's Medical Group LLC	Almost Home Kids	Children's Hospital of Chicago Medical Center	CMMC Insurance Co. Ltd	Lurie Children's Health Partners Care Coordination	Lurie Children's Primary Care	Eliminating Entries	Total
<b>Assets</b>														
<b>Current assets</b>														
Cash and cash equivalents	\$ 29,867,127	\$ -	\$ -	\$ 29,867,127	\$ -	\$ -	\$ 5,390,799	\$ 4,000	\$ -	\$ 203,062	\$ -	\$ -	\$ -	\$ 35,464,988
Current portion of self-insurance trust	17,175,000	-	-	17,175,000	-	-	-	-	-	-	-	-	-	17,175,000
Accounts receivable, net of allowance for uncollectible accounts of \$19,763,000	125,424,373	-	-	125,424,373	-	12,139,052	3,193,259	1,630,271	-	-	-	1,650,656	-	144,037,611
Other current assets	35,567,674	421,615	-	35,989,289	255,134	4,880,915	433,164	118,369	76,025	43,573,258	174,975	896,701	-	86,397,830
<b>Total current assets</b>	<b>208,034,174</b>	<b>421,615</b>	<b>-</b>	<b>208,455,789</b>	<b>255,134</b>	<b>17,019,967</b>	<b>9,017,222</b>	<b>1,752,640</b>	<b>76,025</b>	<b>43,776,320</b>	<b>174,975</b>	<b>2,547,357</b>	<b>-</b>	<b>283,075,429</b>
<b>Investments</b>														
Property and equipment, at cost	1,169,174,416	-	-	1,169,174,416	-	-	-	-	120,000	-	-	-	(120,000)	1,169,174,416
Less: Accumulated depreciation	1,242,697,244	1,614,953	-	1,244,312,197	75,789,109	-	-	2,175,608	-	-	-	2,676,330	-	1,324,953,244
<b>Total property and equipment, net</b>	<b>859,309,429</b>	<b>-</b>	<b>-</b>	<b>859,309,429</b>	<b>46,177,687</b>	<b>-</b>	<b>-</b>	<b>1,844,371</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,430,759</b>	<b>-</b>	<b>909,762,246</b>
<b>Other assets</b>														
Pledges receivable restricted by donors, net	27,821,878	-	-	27,821,878	-	-	-	-	-	-	-	-	-	27,821,878
Goodwill	-	-	-	-	-	-	-	-	-	-	1,417,706	-	-	1,417,706
Other assets	18,430,084	-	-	18,430,084	-	-	-	-	-	-	-	-	-	18,430,084
<b>Total other assets</b>	<b>46,251,962</b>	<b>-</b>	<b>-</b>	<b>46,251,962</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,417,706</b>	<b>-</b>	<b>-</b>	<b>47,669,668</b>
<b>Total assets</b>	<b>\$ 2,282,769,981</b>	<b>\$ 421,615</b>	<b>\$ -</b>	<b>\$ 2,283,191,596</b>	<b>\$ 46,432,821</b>	<b>\$ 17,019,967</b>	<b>\$ 9,017,222</b>	<b>\$ 3,597,011</b>	<b>\$ 196,025</b>	<b>\$ 43,776,320</b>	<b>\$ 174,975</b>	<b>\$ 6,395,822</b>	<b>\$ (120,000)</b>	<b>\$ 2,409,681,759</b>
<b>Liabilities and Net Assets</b>														
<b>Current liabilities</b>														
Accounts payable and accrued expenses	\$ 73,433,263	\$ 2,955,206	\$ -	\$ 76,388,469	\$ 1,628,381	\$ 9,592,677	\$ 4,023,546	\$ 729,726	\$ -	\$ 43,638,009	\$ 32,149	\$ 1,449,209	\$ -	\$ 137,482,166
Current portion of self-insurance liability	17,175,000	-	-	17,175,000	-	-	-	-	-	-	-	-	-	17,175,000
Due to third-party payors	38,841,593	-	-	38,841,593	-	2,561,008	759,514	-	-	-	-	-	-	42,162,115
Current portion of long-term debt	4,890,000	-	-	4,890,000	-	-	-	-	-	-	-	-	-	4,890,000
<b>Total current liabilities</b>	<b>134,339,856</b>	<b>2,955,206</b>	<b>-</b>	<b>137,295,062</b>	<b>1,628,381</b>	<b>12,153,685</b>	<b>4,783,060</b>	<b>729,726</b>	<b>-</b>	<b>43,638,009</b>	<b>32,149</b>	<b>1,449,209</b>	<b>-</b>	<b>201,709,281</b>
<b>Other liabilities</b>														
Self-insurance liability	82,828,496	-	-	82,828,496	-	-	-	-	-	-	-	-	-	82,828,496
Other noncurrent liabilities	51,651,468	-	-	51,651,468	-	-	-	237,219	-	-	-	-	-	51,888,687
<b>Total other liabilities</b>	<b>134,479,964</b>	<b>-</b>	<b>-</b>	<b>134,479,964</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>237,219</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>134,717,183</b>
<b>Long-term debt</b>	<b>357,449,475</b>	<b>-</b>	<b>-</b>	<b>357,449,475</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>357,449,475</b>
<b>Total liabilities</b>	<b>626,269,295</b>	<b>2,955,206</b>	<b>-</b>	<b>629,224,501</b>	<b>1,628,381</b>	<b>12,153,685</b>	<b>4,783,060</b>	<b>966,945</b>	<b>-</b>	<b>43,638,009</b>	<b>32,149</b>	<b>1,449,209</b>	<b>-</b>	<b>693,875,939</b>
<b>Stockholder's equity</b>														
Common stock	-	-	-	-	-	-	-	-	-	120,000	-	-	(120,000)	-
Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	18,311	(18,311)
<b>Total stockholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>138,311</b>	<b>-</b>	<b>-</b>	<b>(138,311)</b>	<b>-</b>
<b>Net assets</b>														
Unrestricted	1,261,220,001	(2,533,591)	-	1,278,686,410	44,804,440	4,866,282	4,234,162	2,630,066	196,025	-	142,826	4,946,613	18,311	1,340,525,135
Temporarily restricted	207,628,025	-	-	207,628,025	-	-	-	-	-	-	-	-	-	207,628,025
Permanently restricted	167,652,660	-	-	167,652,660	-	-	-	-	-	-	-	-	-	167,652,660
<b>Total net assets</b>	<b>1,656,500,686</b>	<b>(2,533,591)</b>	<b>-</b>	<b>1,653,967,095</b>	<b>44,804,440</b>	<b>4,866,282</b>	<b>4,234,162</b>	<b>2,630,066</b>	<b>196,025</b>	<b>-</b>	<b>142,826</b>	<b>4,946,613</b>	<b>18,311</b>	<b>1,715,805,820</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,282,769,981</b>	<b>\$ 421,615</b>	<b>\$ -</b>	<b>\$ 2,283,191,596</b>	<b>\$ 46,432,821</b>	<b>\$ 17,019,967</b>	<b>\$ 9,017,222</b>	<b>\$ 3,597,011</b>	<b>\$ 196,025</b>	<b>\$ 43,776,320</b>	<b>\$ 174,975</b>	<b>\$ 6,395,822</b>	<b>\$ (120,000)</b>	<b>\$ 2,409,681,759</b>

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidating Statement of Operation and Change in Unrestricted Net Assets

### Year Ended August 31, 2017

	Ann & Robert H. Lurie Children's Hospital of Chicago	Ann & Robert H. Lurie Children's Hospital of Chicago Foundation	Eliminating Entries	Obligated Group	Stanley Manne Children's Research Institute	Pediatric Faculty Foundation	Lurie Children's Medical Group LLC	Almost Home Kids	Children's Hospital of Chicago Medical Center	CMMC Insurance Co. Ltd	Lurie Children's Health Partners Care Coordination	Lurie Children's Primary Care	Eliminating Entries	Total
<b>Operating revenue</b>														
Patient service revenue, net of contractual allowances and discounts	\$ 750,766,689	\$ -	\$ -	\$ 750,766,689	\$ -	\$ 94,384,541	\$ 16,698,989	\$ 4,240,112	\$ -	\$ -	\$ -	\$ 17,396,966	\$ (308,665)	\$ 883,178,632
Provision for doubtful accounts	11,371,898	-	-	11,371,898	-	3,927,690	500,077	65,000	-	-	-	133,209	-	15,997,874
Net patient service revenue	739,394,791	-	-	739,394,791	-	90,456,851	16,198,912	4,175,112	-	-	-	17,263,757	(308,665)	867,180,758
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions and philanthropy used for program purposes	25,508,171	-	-	25,508,171	6,600,557	3,029,641	-	103,007	-	-	-	-	(9,733,205)	25,508,171
Grants and other restricted income used for program purposes	41,156,293	-	-	41,156,293	6,642,862	4,829,859	447,639	-	-	-	-	-	(11,920,360)	41,156,293
Board-designated endowment income	9,377,423	-	-	9,377,423	1,553,225	777,310	217,748	-	-	-	-	-	(2,548,283)	9,377,423
Other operating revenue	35,663,926	-	-	35,663,926	100,000	33,739,131	5,244,532	992,743	-	94,695	213,589	86,949	(19,469,456)	56,666,109
Total operating revenue	851,100,604	-	-	851,100,604	14,896,644	132,832,792	22,108,831	5,270,862	-	94,695	213,589	17,350,706	(43,979,969)	999,888,754
<b>Operating expenses</b>														
Salaries, wages, and employee benefits	377,448,152	9,752,721	(9,752,721)	377,448,152	12,725,634	132,831,051	19,277,032	5,665,161	603,441	-	965,757	11,281,690	(32,402,905)	528,395,013
Supplies and services	289,993,227	6,400,983	(6,400,983)	289,993,227	9,826,607	29,763,780	4,435,200	715,940	98,628	90,638	705,449	6,694,047	(13,735,673)	328,587,843
Depreciation	63,050,926	-	-	63,050,926	3,028,987	-	-	110,508	-	-	-	558,690	-	68,907,720
Total operating expenses	730,492,305	16,153,704	(16,153,704)	730,492,305	25,581,228	162,594,831	23,712,232	6,491,609	702,069	90,638	1,671,206	18,534,427	(43,979,969)	925,890,576
Income (loss) from operations before interest and amortization	120,608,299	(16,153,704)	16,153,704	120,608,299	(10,684,584)	(29,762,039)	(1,603,401)	(1,220,747)	(702,069)	4,057	(1,457,617)	(1,183,721)	-	73,998,178
Interest and amortization of financing costs	21,692,569	-	-	21,692,569	-	-	-	-	-	-	-	-	-	21,692,569
Income (loss) from operations	98,915,730	(16,153,704)	16,153,704	98,915,730	(10,684,584)	(29,762,039)	(1,603,401)	(1,220,747)	(702,069)	4,057	(1,457,617)	(1,183,721)	-	52,305,609
<b>Nonoperating income (expense), net</b>														
Investment return	86,680,868	-	-	86,680,868	-	-	-	-	-	1,161	-	-	-	86,682,029
Unrestricted Contributions and bequests	-	17,365,180	-	17,365,180	-	-	-	827,443	-	-	-	-	-	18,192,623
Fund-raising expense	-	-	(16,153,704)	(16,153,704)	-	-	-	(207,975)	-	-	-	-	-	(16,361,679)
Gain (loss) on disposal of fixed assets	(264,049)	-	-	(264,049)	12,000	-	-	-	-	-	-	-	-	(252,049)
Loss on debt refinancing	(9,328,997)	-	-	(9,328,997)	-	-	-	-	-	-	-	-	-	(9,328,997)
Other	(13,703,642)	-	-	(13,703,642)	-	-	-	16,616	-	-	-	-	-	(13,687,026)
Total nonoperating income(loss)	63,384,180	17,365,180	(16,153,704)	64,595,656	12,000	-	-	636,084	-	1,161	-	-	-	65,244,901
Excess (deficiency) of revenue over expenses	162,299,910	1,211,476	-	163,511,386	(10,672,584)	(29,762,039)	(1,603,401)	(584,663)	(702,069)	5,218	(1,457,617)	(1,183,721)	-	117,550,510
Net assets released from restrictions used for purchase of property and equipment	942,978	-	-	942,978	-	-	-	-	-	-	-	-	-	942,978
Retirement plan-related change other than net periodic retirement plan expense	16,424,784	-	-	16,424,784	-	-	-	-	-	-	-	-	-	16,424,784
Net assets transferred from newly affiliated organization	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	125,659	-	-	125,659	-	-	-	-	-	-	-	-	-	125,659
Transfers (to) from affiliates	(97,164,293)	(1,062,785)	-	(98,227,078)	62,280,942	32,307,837	574,106	797,597	702,069	-	1,614,020	(49,493)	-	-
Increase (decrease) in unrestricted net assets	\$ 82,629,038	\$ 148,691	\$ -	\$ 82,777,729	\$ 51,608,358	\$ 2,545,798	\$ (1,029,295)	\$ 212,934	\$ -	\$ 5,218	\$ 156,403	\$ (1,233,214)	\$ -	\$ 135,043,931

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidating Statement of Operation and Change in Unrestricted Net Assets

### Year Ended August 31, 2016

	Ann & Robert H. Lurie Children's Hospital of Chicago	Ann & Robert H. Lurie Children's Hospital of Chicago Foundation	Eliminating Entries	Obligated Group	Stanley Manne Children's Research Institute	Pediatric Faculty Foundation	Lurie Children's Medical Group LLC	Almost Home Kids	Children's Hospital of Chicago Medical Center	CMMC Insurance Co. Ltd	Lurie Children's Health Partners Care Coordination	Lurie Children's Primary Care	Eliminating Entries	Total
<b>Operating revenue</b>														
Patient service revenue, net of contractual allowances and discounts	\$ 688,020,706	\$ -	\$ -	\$ 688,020,706	\$ -	\$ 88,873,550	\$ 16,833,303	\$ 4,337,944	\$ -	\$ -	\$ -	\$ 9,495,394	\$ (482,538)	\$ 807,078,359
Provision for doubtful accounts	8,617,551	-	-	8,617,551	-	3,775,430	658,564	92,964	-	-	-	-	-	13,144,509
Net patient service revenue	679,403,155	-	-	679,403,155	-	85,098,120	16,174,739	4,244,980	-	-	-	9,495,394	(482,538)	793,933,850
Net assets released from restrictions														
Contributions and philanthropy used for program purposes	25,528,929	-	-	25,528,929	4,196,417	2,930,686	-	70,461	-	-	-	-	(7,197,564)	25,528,929
Grants and other restricted income used for program purposes	39,045,451	-	-	39,045,451	5,616,992	4,607,463	581,764	-	-	-	-	-	(10,806,219)	39,045,451
Board-designated endowment income	7,628,036	-	-	7,628,036	1,172,209	1,792,837	231,904	-	-	-	-	-	(3,196,950)	7,628,036
Other operating revenue	34,734,682	-	-	34,734,682	245,763	32,574,606	5,254,056	36,638	-	78,490	1,041,236	66,719	(17,718,313)	56,313,877
Total operating revenue	786,340,253	-	-	786,340,253	11,231,381	127,003,712	22,242,463	4,352,079	-	78,490	1,041,236	9,562,113	(39,401,584)	922,450,143
<b>Operating expenses</b>														
Salaries, wages, and employee benefits	351,700,664	9,943,378	(9,943,378)	351,700,664	10,779,000	122,931,646	18,421,404	5,045,994	379,410	-	523,769	7,497,073	(27,492,315)	489,786,645
Supplies and services	258,845,105	7,166,188	(7,166,188)	258,845,105	9,293,750	26,129,474	4,534,545	876,223	86,107	83,019	2,229,073	4,551,229	(14,627,790)	292,000,735
Depreciation	61,995,927	-	-	61,995,927	2,992,063	-	-	137,642	-	-	-	245,571	-	66,089,724
Total operating expenses	672,541,696	17,109,566	(17,109,566)	672,541,696	23,064,813	149,061,120	22,955,949	6,059,859	465,517	83,019	2,752,842	12,293,873	(39,401,584)	849,877,104
Income (loss) from operations before interest and amortization	113,798,557	(17,109,566)	17,109,566	113,798,557	(11,833,432)	(22,057,408)	(713,486)	(1,707,780)	(465,517)	(4,529)	(1,711,606)	(2,731,760)	-	72,573,039
Interest and amortization of financing costs	22,215,302	-	-	22,215,302	-	-	-	-	-	-	-	-	-	22,215,302
Income (loss) from operations	91,583,255	(17,109,566)	17,109,566	91,583,255	(11,833,432)	(22,057,408)	(713,486)	(1,707,780)	(465,517)	(4,529)	(1,711,606)	(2,731,760)	-	50,357,737
<b>Nonoperating income (expense), net</b>														
Investment return	11,148,923	-	-	11,148,923	-	-	-	-	-	-	-	-	-	11,148,923
Unrestricted Contributions and bequests	-	17,091,705	-	17,091,705	-	-	-	784,385	-	-	-	-	-	17,876,090
Fund-raising expense	-	-	(17,109,566)	(17,109,566)	-	-	-	(173,682)	-	-	-	-	-	(17,283,228)
Gain (loss) on disposal of fixed assets	50,824,462	-	-	50,824,462	-	-	-	-	-	-	-	-	-	50,824,462
Other	(1,711,696)	-	-	(1,711,696)	-	-	-	11,856	-	-	-	-	-	(1,699,840)
Total nonoperating income(loss)	60,261,689	17,091,705	(17,109,566)	60,243,828	-	-	-	622,579	-	-	-	-	-	60,866,407
Excess (deficiency) of revenue over expenses	151,844,944	(17,861)	-	151,827,083	(11,833,432)	(22,057,408)	(713,486)	(1,085,201)	(465,517)	(4,529)	(1,711,606)	(2,731,760)	-	111,224,144
Net assets released from restrictions used for purchase of property and equipment	429,495	-	-	429,495	-	-	-	-	-	-	-	-	-	429,495
Retirement plan-related change other than net periodic retirement plan expense	(13,847,027)	-	-	(13,847,027)	-	-	-	-	-	-	-	-	-	(13,847,027)
Net assets transferred from newly affiliated organization	(4,050,000)	-	-	(4,050,000)	-	-	-	-	-	-	-	4,050,000	-	-
Other	262,679	-	-	262,669	-	-	-	-	-	-	-	-	-	262,669
Transfers (to) from affiliates	(72,696,350)	(79,497)	-	(72,775,847)	40,061,420	22,626,745	3,078,086	1,262,493	465,517	-	1,853,213	3,628,373	-	-
Increase (decrease) in unrestricted net assets	\$ 61,943,741	\$ (97,368)	\$ -	\$ 61,846,373	\$ 28,227,988	\$ 569,337	\$ 2,364,600	\$ 177,292	\$ -	\$ (4,529)	\$ (58,393)	\$ 4,946,613	\$ -	\$ 98,069,281