

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

**Consolidated Financial Statements
August 31, 2018 and 2017**

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Index

August 31, 2018 and 2017

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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, 2018 and 2017, 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 controls 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 controls. 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, 2018 and 2017, 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 5, 2018

Children's Hospital of Chicago Medical Center and Affiliated Corporations
Consolidated Balance Sheets
August 31, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 36,481,145	\$ 35,642,889
Current portion of self-insurance trust	15,000,000	15,000,000
Accounts receivable, net of allowance for uncollectible accounts of \$28,060,000 and \$25,991,000 in 2018 and 2017, respectively	141,182,354	167,445,978
Other current assets	81,484,306	81,053,300
Total current assets	<u>274,147,805</u>	<u>299,142,167</u>
Investments	<u>1,417,896,871</u>	<u>1,318,325,752</u>
Property and equipment, at cost		
Land	38,234,151	38,234,151
Buildings and improvements	1,016,010,062	958,262,026
Equipment	366,193,404	334,938,725
Construction in progress	190,429,096	95,565,737
Total property and equipment, at cost	1,610,866,713	1,427,000,639
Less: Accumulated depreciation	<u>549,706,176</u>	<u>482,965,833</u>
Property and equipment, net	<u>1,061,160,537</u>	<u>944,034,806</u>
Other assets		
Pledges receivable restricted by donors, net	58,694,494	27,014,628
Goodwill	1,417,706	1,417,706
Other	17,555,781	17,996,711
Total other assets	<u>77,667,981</u>	<u>46,429,045</u>
Total assets	<u>\$ 2,830,873,194</u>	<u>\$ 2,607,931,770</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 195,206,575	\$ 180,588,644
Current portion of self-insurance liability	15,000,000	15,000,000
Due to third-party payors	42,805,957	45,108,320
Current portion of long-term debt	5,115,000	5,150,000
Total current liabilities	<u>258,127,532</u>	<u>245,846,964</u>
Other liabilities		
Self-insurance liability	98,954,218	89,622,319
Other noncurrent liabilities	41,016,871	35,316,713
Total other liabilities	<u>139,971,089</u>	<u>124,939,032</u>
Long-term debt	<u>362,205,678</u>	<u>352,933,396</u>
Total liabilities	<u>760,304,299</u>	<u>723,719,392</u>
Net assets		
Unrestricted	1,590,053,473	1,475,569,066
Temporarily restricted	289,623,344	233,762,028
Permanently restricted	190,892,078	174,881,284
Total net assets	<u>2,070,568,895</u>	<u>1,884,212,378</u>
Total liabilities and net assets	<u>\$ 2,830,873,194</u>	<u>\$ 2,607,931,770</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, 2018 and 2017

	2018	2017
Operating revenue		
Patient service revenue, net of contractual allowance and discounts	\$ 968,258,040	\$ 883,178,632
Provision for doubtful accounts	<u>15,052,483</u>	<u>15,997,874</u>
Net patient service revenue	953,205,557	867,180,758
Net assets released from restriction		
Contributions and philanthropy used for program purposes	32,725,755	25,508,171
Grants and other restricted income used for program purposes	42,224,268	41,156,293
Board-designated endowment income	11,244,665	9,377,423
Other operating revenue	<u>58,764,281</u>	<u>56,666,109</u>
Total operating revenue	<u>1,098,164,526</u>	<u>999,888,754</u>
Operating expenses		
Salaries, wages, and employee benefits	585,825,039	528,395,013
Supplies and services	358,753,271	328,587,843
Depreciation	<u>67,110,354</u>	<u>68,907,720</u>
Total operating expenses	<u>1,011,688,664</u>	<u>925,890,576</u>
Income from operations before interest and amortization	86,475,862	73,998,178
Interest and amortization of financing costs	<u>18,256,510</u>	<u>21,692,569</u>
Income from operations	<u>68,219,352</u>	<u>52,305,609</u>
Nonoperating income (expense)		
Investment return gains	60,697,701	86,682,029
Unrestricted contributions and bequests	20,542,263	18,192,623
Fundraising expense	(17,502,176)	(16,361,679)
Loss on disposal of fixed assets	(70,065)	(252,049)
Loss on debt refinancing	(10,400,807)	(9,328,997)
Other	<u>(11,490,105)</u>	<u>(13,687,026)</u>
Total nonoperating income	<u>41,776,811</u>	<u>65,244,901</u>
Excess of revenue over expenses	<u>\$ 109,996,163</u>	<u>\$ 117,550,510</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, 2018 and 2017

	2018	2017
Unrestricted net assets		
Excess of revenue over expenses	\$ 109,996,163	\$ 117,550,510
Net assets released from restriction used for purchase and construction of property and equipment	829,787	942,978
Retirement plan related change other than net periodic retirement plan expense	3,518,639	16,424,784
Other	139,818	125,659
	<u>114,484,407</u>	<u>135,043,931</u>
Increase in unrestricted net assets		
Temporarily restricted net assets		
Contributions	76,007,224	38,401,249
Grants and other restricted income	46,167,223	40,486,115
Investment return	10,832,770	15,172,436
Pledge receivable write-offs, net of change in allowance	739,688	(59,321)
Net assets released from restriction		
Contributions and philanthropy used for program purposes	(32,725,755)	(25,508,171)
Grants and other restricted income used for program purposes	(42,224,268)	(41,156,293)
Purchase of property and equipment	(829,787)	(942,978)
Transfers and other	(2,105,779)	(259,034)
	<u>55,861,316</u>	<u>26,134,003</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets		
Contributions	13,158,995	5,659,377
Change in fair value of perpetual trusts	746,020	1,310,213
Transfers and other	2,105,779	259,034
	<u>16,010,794</u>	<u>7,228,624</u>
Increase in permanently restricted net assets		
Increase in net assets	186,356,517	168,406,558
Net assets		
Beginning of year	<u>1,884,212,378</u>	<u>1,715,805,820</u>
End of year	<u>\$ 2,070,568,895</u>	<u>\$ 1,884,212,378</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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Increase in net assets	\$ 186,356,517	\$ 168,406,558
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gains on investments	(60,697,701)	(86,682,029)
Restricted contributions and restricted investment return	(28,653,265)	(25,289,376)
Loss on disposal of fixed assets	70,065	252,049
Receipt of contributed securities	(8,182,418)	(8,962,652)
Loss on debt refinancing	10,400,807	9,328,997
Investment loss - CIN and MCC	3,185,320	6,300,186
Retirement plan related change other than net periodic retirement plan expense	(3,518,639)	(16,424,784)
Depreciation and amortization	66,433,307	69,105,714
Provision for doubtful accounts	15,052,483	15,997,874
Net changes in assets and liabilities		
Accounts receivable, net	11,211,141	(39,406,241)
Accounts payable and accrued expenses	(5,946,751)	42,793,630
Premium on new debt issue	-	13,415,591
Due to third-party payors	(2,302,363)	2,946,205
Self-insurance liability	9,331,899	4,618,823
Other assets and liabilities	(22,454,239)	6,271,455
Net cash provided by operating activities	<u>170,286,163</u>	<u>162,672,000</u>
Cash flows from investing activities		
Capital expenditures	(159,083,326)	(100,434,952)
Sale of investments	4,999,771,334	3,327,422,506
Purchases of investments	(5,024,196,494)	(3,370,490,272)
Net cash used in investing activities	<u>(183,508,486)</u>	<u>(143,502,718)</u>
Cash flows from financing activities		
Principal payments under long-term debt obligations	(5,150,000)	(4,890,000)
Proceeds from long-term refinancing	223,550,000	135,480,000
Advance refunding of debt	(220,997,413)	(158,717,859)
Debt issuance costs	(2,552,587)	(1,588,823)
Proceeds from restricted contributions and restricted investment income	19,210,579	10,725,301
Net cash provided by/(used in) financing activities	<u>14,060,579</u>	<u>(18,991,381)</u>
Increase in cash and cash equivalents	838,256	177,901
Cash and cash equivalents		
Beginning of year	<u>35,642,889</u>	<u>35,464,988</u>
End of year	<u>\$ 36,481,145</u>	<u>\$ 35,642,889</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 16,153,000	\$ 20,976,000
Noncash additions to property and equipment	34,188,000	8,965,000

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, 2018 and 2017

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.

As of August 31, 2018, the Hospital owns and operates a pediatric hospital with 296 licensed beds in Chicago, Illinois, an increase from 288 licensed beds as of August 31, 2017. Newly built intensive care unit beds made up 100% of the increase. 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 480 pediatric primary care and subspecialty physicians. A portion of research activity also flows through PFF.

LCMG, with more than 50 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

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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 provides primary care services to Chicago residents and surrounding areas with more than 20 primary care pediatricians.

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 began dissolving, 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 \$75,000 and \$92,000 as of August 31, 2018 and 2017, 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 an 8% capital position, and the Medical Center is committed to a 92% capital position, of which \$3,198,000 was contributed during fiscal year 2018. 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 its investment in CIN as of August 31, 2017.

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.

The accompanying consolidating balance sheets and consolidating statements of operation and change in unrestricted net assets by entity as of August 31, 2018 and 2017 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 recorded.

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

2. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Medical Center, the Hospital, the Research Center, the Foundation, PFF, and AHK are all not-for-profit organizations exempt from federal income taxes. Certain activities of the Hospital are taxable as unrelated business income. Such activities include earnings from alternative investments, reference laboratory, and parking benefits. As of August 31, 2018 and 2017, \$2,469,000 and \$534,000 were recorded, respectively, as provision for unrelated business income tax and included in the consolidated statements of operation and change in net assets. Of the current year provision for unrelated business income tax, \$1,500,000 is an estimate related to employee parking and transportation fringe benefits under the Tax Cuts and Jobs Act enacted by the U.S. Congress in 2017.

LCMG, CCE and LCPC are disregarded entities treated as divisions of the Medical Center for Internal Revenue Service ('IRS') reporting.

3. 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 effective for the Medical Center for the year ending August 31, 2019. 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, 2018.

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 is effective for the Medical Center for the fiscal year beginning after December 15, 2018. The Medical Center did not early adopt this standard as of August 31, 2018.

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Notes to Consolidated Financial Statements

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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, 2018.

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, 2018.

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.

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 8.

Other Current Assets

Other current assets for fiscal year 2018 and 2017 are as follows:

Children’s Hospital of Chicago Medical Center and Affiliated Corporations
Notes to Consolidated Financial Statements
August 31, 2018 and 2017

	2018	2017
Outreach Hospitals and Practice Plan Receivables	\$ 19,187,179	\$ 17,010,284
Prepaid expenses	19,811,365	16,823,447
Inventory	11,336,622	6,874,503
Insurance receivables (Note 12)	24,619,382	32,667,006
Other	<u>6,529,758</u>	<u>7,678,060</u>
Total other current assets	<u>\$ 81,484,306</u>	<u>\$ 81,053,300</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.

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 2018 and 2017, the Medical Center disposed of fully depreciated assets of \$491,000 and \$716,000, respectively, of property, equipment and software that were no longer in use. The Medical Center continually evaluates whether circumstances have occurred that would indicate the

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

remaining estimated useful life of long-lived assets warrants revision. 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, 2018 and 2017, the Medical Center recognized \$1,729,000 and \$2,738,000, respectively, of accelerated depreciation on these assets. See Note 16 for further information on the sale of the Research Center's Halsted building.

Pledges Receivable Restricted by Donors

As of August 31, 2018, approximately 15% of pledges restricted by donors are receivable within one year, 49% between two and five years, and 36% receivable beyond five years. Pledges are recorded at the present value of estimated future cash flow, net of allowances for uncollectible pledges of \$2,498,000 and \$2,255,000 at August 31, 2018 and 2017, respectively, and present value discounts of \$18,340,000 and \$11,771,000 at August 31, 2018 and 2017, respectively. Estimated future cash flows due after one year are discounted using interest rates of 3.5% 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. The amount of bond issuance costs and unamortized underwriter fees were \$3,880,000 and \$5,746,000 at August 31, 2018 and August 31, 2017, respectively.

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 represent payables owed in the ordinary course of business and expenses incurred but not yet paid by the Medical Center, 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

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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 12.

Other Noncurrent Liabilities

Other noncurrent liabilities for fiscal year 2018 and 2017 are as follows:

	2018	2017
Accrued pension liabilities	\$ 16,688,485	\$ 21,732,790
Lease obligations	24,031,616	13,267,293
Other	296,770	316,630
Total other noncurrent liabilities	<u>\$ 41,016,871</u>	<u>\$ 35,316,713</u>

See Note 9 for pension disclosures and Note 11 for a detailed lease payment schedule.

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 7 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 2018 and 2017 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, all patient refined diagnosis related group’s (APR-DRG’s) and per diem payments. Reimbursement from certain programs is subject to third party 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

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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 \$3,413,000 and \$755,000, respectively, in fiscal year 2018 and 2017.

Approximately 34% and 33% respectively, of the Medical Center’s net patient service revenue in fiscal 2018 and 2017 was derived from the Illinois Medicaid program, including Medicaid MCO’s.

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, the 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 expansion expired on June 30, 2018. The CMS approved the redesigned Hospital Assessment Program effective July 1, 2018. The redesigned program shifts some of the fixed Assessment payments to claims based payments.

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

	2018	2017
For fiscal year ended August 31		
Tax assessment, included in net patient service revenue	\$ 63,841,860	\$ 61,658,587
Tax expense, included in supplies and service expense	<u>(20,179,685)</u>	<u>(19,218,966)</u>
Net statement of operation impact	<u>\$ 43,662,175</u>	<u>\$ 42,439,621</u>
Related to State fiscal year ended June 30, 2017	\$ -	\$ 35,233,474
Related to State fiscal year ended June 30, 2018	38,720,374	7,206,147
Related to State fiscal year ended June 30, 2019	<u>4,941,801</u>	<u>-</u>
	<u>\$ 43,662,175</u>	<u>\$ 42,439,621</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 2018 and 2017, the Medical Center received approximately \$9,986,000 and \$9,711,000, 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.

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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.

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, 2018 and 2017, the Medical Center's interests in these trustee-held funds at fair value totaled approximately \$31,229,000 and \$30,483,000, 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 2017 amounts have been reclassified to conform to the 2018 consolidated financial statement presentation.

4. 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

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services represent charity care. Charges are shown as revenue however they are netted with a charity care discount.

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 2018 and 2017 are as follows:

	2018	2017
Excess of allocated cost over reimbursement for services provided to Medicaid patients	\$ 149,344,444	\$ 144,783,126
Net benefit under the Illinois Hospital Assessment Program	<u>(43,662,175)</u>	<u>(42,439,621)</u>
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients, net of benefit under the Illinois Hospital Assessment Program	105,682,269	102,343,505
Estimated costs and expenses incurred to provide charity care	<u>2,978,252</u>	<u>2,023,981</u>
Unreimbursed cost of charity care	108,660,521	104,367,486
Cost of patient bad debts	4,704,937	4,971,302
Funds allocated to research from unrestricted funds	11,602,455	10,672,582

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Resident and fellows expense	22,411,432	20,199,416
Community clinic support	3,283,023	3,334,635
Child advocacy programs	4,890,711	2,623,267
Family support and interpretation services	<u>8,683,507</u>	<u>8,781,287</u>
Total cost of unreimbursed charity care and community benefit programs	<u>\$ 164,236,586</u>	<u>\$ 154,949,975</u>

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.

5. 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, 2018 and 2017, investments consisted of the following, which includes the current portion of the self-insurance trust of \$15,000,000, respectively for both years:

	2018	2017
Short-term investments	\$ 69,990,009	\$ 143,024,139
Common stock/mutual funds and common collective trusts	552,862,336	464,824,856
Alternative investments	516,521,881	393,942,108
U.S. Government and agency securities	109,984,471	119,586,186
Corporate and municipal bonds	<u>183,538,174</u>	<u>211,948,463</u>
Total investments	<u>\$ 1,432,896,871</u>	<u>\$ 1,333,325,752</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 15.

All Medical Center investments are invested with external managers.

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The Medical Center pools its unrestricted, board-designated and donor-restricted investments. As of August 31, 2018 and 2017, donor-restricted and unrestricted investments are as follows:

	2018	2017
Donor-restricted investments and other assets limited as to use		
Endowments	\$ 156,549,272	\$ 141,136,641
Specific purpose	239,311,602	210,108,339
Self-insurance trust	91,790,669	85,654,227
Interest in trustee-held funds	31,229,405	30,483,385
Interest in MCC and CIN	433,530	432,690
Total restricted investments	<u>519,314,478</u>	<u>467,815,282</u>
Unrestricted investments		
Undesignated and board-designated investments	<u>913,582,393</u>	<u>865,510,470</u>
Total unrestricted investments	<u>913,582,393</u>	<u>865,510,470</u>
Total investments	<u>\$ 1,432,896,871</u>	<u>\$ 1,333,325,752</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, 2018 and 2017 are as follows:

	2018	2017
Unrestricted investment return		
Interest and dividend income	\$ 14,961,665	\$ 13,094,423
Realized gains on sales of investments	39,280,763	68,225,794
Unrealized gains on investments	<u>21,416,938</u>	<u>18,456,235</u>
Total unrestricted investment return	<u>\$ 75,659,366</u>	<u>\$ 99,776,452</u>
Reported as		
Board-designated endowment income	\$ 11,244,665	\$ 9,377,423
Other operating investment return	3,717,000	3,717,000
Nonoperating investment return gains	<u>60,697,701</u>	<u>86,682,029</u>
Total unrestricted investment return	<u>75,659,366</u>	<u>99,776,452</u>
Temporarily and permanently restricted investment return		
Interest and dividend income	2,136,104	1,918,574
Net realized and unrealized gains on investments	<u>9,442,686</u>	<u>14,564,075</u>
Total restricted investment return	<u>11,578,790</u>	<u>16,482,649</u>
Total investment return	<u>\$ 87,238,156</u>	<u>\$ 116,259,101</u>

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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 \$787,000 and \$925,000 of this type of investment are in liquidating funds for fiscal 2018 and 2017, respectively.

6. Fair Value Measurements

The Medical Center follows the provisions of the FASB 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.

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The following table presents the investments carried at fair value as of August 31, 2018, 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
Assets					
Investments					
Short-term investments	\$ 51,002,207	\$ 10,459	\$ -	\$ 18,977,343	\$ 69,990,009
Common stock/collective trust and mutual funds	481,229,238	419,625	-	70,779,943	552,428,806
Alternative investments	-	-	1,335,136	515,186,744	516,521,880
U.S. Government and agency securities	-	109,984,471	-	-	109,984,471
Corporate and municipal bonds	<u>40,678,174</u>	<u>142,860,001</u>	<u>-</u>	<u>-</u>	<u>183,538,175</u>
Total assets at fair value	<u>\$ 572,909,619</u>	<u>\$ 253,274,556</u>	<u>\$ 1,335,136</u>	<u>\$ 604,944,030</u>	<u>\$ 1,432,463,341</u>

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
Assets					
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	<u>19,688,819</u>	<u>192,259,644</u>	<u>-</u>	<u>-</u>	<u>211,948,463</u>
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>\$ 1,332,893,063</u>

The tables above do not include the Medical Center's interest in MCC and CIN of \$434,000 and \$433,000 as of August 31, 2018 and 2017 respectively.

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.

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The following table is a rollforward of the August 31, 2018 and 2017 balance sheet amounts for financial instruments classified by the Medical Center within Level 3 of the fair value hierarchy.

	Level 3 Assets Alternative Investments	
	2018	2017
Balance at beginning of year	\$ 632,083	\$ 533,548
Total net unrealized gain	19,595	16,540
Purchases	<u>683,458</u>	<u>81,995</u>
Balance at end of year	<u>\$ 1,335,136</u>	<u>\$ 632,083</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, corporate stocks, international stocks, and mutual funds, is 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.

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7. 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, 2018 delineated by net asset class:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	<u>\$ 180,458,629</u>	<u>\$ 76,794,570</u>	<u>\$ 174,881,284</u>	<u>\$ 432,134,483</u>
Investment return				
Investment income	-	2,136,104	-	2,136,104
Realized and unrealized gain	-	7,660,146	746,020	8,406,166
Total investment return	-	9,796,250	746,020	10,542,270
Contributions	-	-	14,831,358	14,831,358
Spend rate allocation	5,347,039	-	-	5,347,039
Appropriation of endowment assets for expenditure	(4,980,518)	(6,265,853)	-	(11,246,371)
Other	(831,153)	-	433,416	(397,737)
Endowment net assets at end of year	<u>\$ 179,993,997</u>	<u>\$80,324,967</u>	<u>\$ 190,892,078</u>	<u>\$ 451,211,042</u>

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

	Temporarily Restricted	Permanently Restricted	Total
Restricted for Research	\$ 26,377,660	\$ 45,876,275	\$ 72,253,935
Restricted for Pediatric Programs	<u>53,947,307</u>	<u>145,015,803</u>	<u>198,963,110</u>
	<u>\$ 80,324,967</u>	<u>\$ 190,892,078</u>	<u>\$ 271,217,045</u>

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:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	<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	<u>-</u>	<u>13,350,807</u>	<u>1,310,213</u>	<u>14,661,020</u>
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	<u>55,923</u>	<u>(1,781,348)</u>	<u>259,033</u>	<u>(1,466,392)</u>
Endowment net assets at end of year	<u>\$ 180,458,629</u>	<u>\$ 76,794,570</u>	<u>\$ 174,881,284</u>	<u>\$ 432,134,483</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	\$ 20,520,292	\$ 31,142,990	\$ 51,663,282
Restricted for Pediatric Programs	<u>56,274,278</u>	<u>143,738,294</u>	<u>200,012,572</u>
	<u>\$ 76,794,570</u>	<u>\$ 174,881,284</u>	<u>\$ 251,675,854</u>

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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 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 2018 and 2017 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 2018 and 2017 are related to expenses incurred for research and programs.

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8. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents. The mix of net receivables from patients and third-party payors at August 31, 2018 and 2017, was as follows:

	2018	2017
Managed Care	52%	41%
Illinois Medicaid	20	26
Medicaid Managed Care	18	27
Patient Self-Pay	4	3
Other (Medicare, Tri-Care, out-of-state)	6	3
	<u>100%</u>	<u>100%</u>

Medicaid and Medicaid Managed Care has decreased from 53% at August 31, 2017 to 38% at August 31, 2018. The decrease is primarily due to payments received in fiscal 2018 on old outstanding receivables from Medicaid and Medicaid Managed Care payors. In fiscal 2018 the state passed a budget, which it had not done for the prior year, and resumed making payments to providers. The state also provided funding to Medicaid Managed Care payors which in turn resumed payments to providers.

A summary of utilization based upon gross patient service revenue for the years ended August 31, 2018 and 2017 is as follows:

	2018	2017
Managed Care	47%	49%
Illinois Medicaid	20	17
Medicaid Managed Care	30	32
Patient Self Pay	1	1
Other (Medicare, Tri-Care, out-of-state)	2	1
	<u>100%</u>	<u>100%</u>

9. 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').

There are two 403(b) defined contribution plans available only to eligible pediatric faculty within PFF, a mandatory plan and a voluntary plan, 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 up to 10 percent of compensation. PFF faculty who are not eligible for the mandatory plan or who have not reached the IRS limits may participate in the voluntary plan with no match.

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All non-PFF employees, who elect to contribute 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. New employees are automatically enrolled 60 days after hire at 2 percent if they have not already made an election. The Hospital matches 100 percent of the employee's contribution up to 5 percent of compensation. Employees must be employed 3 years to be vested in the Hospital match.

The Medical Center's matching expense under both defined contribution plans totaled \$24,312,000 and \$21,798,000 in fiscal 2018 and 2017, 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 two nonqualified supplemental defined benefit retirement plans (SERP); a defined benefit plan (DB SERP) and a defined contribution plan (DC SERP) plan for certain key executives. The DB SERP plan is not funded and, therefore, has no plan assets. Benefits under the DB SERP are paid when incurred from the Medical Center's unrestricted net assets.

Further, write downs in the DB SERP of \$645,000 and \$549,000 were recognized which represented a portion of the previously unrecognized losses of the plan as of August 31, 2018 and 2017, respectively.

Effective as of January 1, 2017, the Medical Center sponsors a nonqualified DC SERP for certain key executives. Under this plan, the accrued obligations are determined as of December 31 of each year using 14 percent of participants' gross pay reduced by an employer match on the qualified plan. The plan has a vesting service period of 5 years or attainment of age 62. The Medical Center recorded \$1,001,000 as expense and liability for the plan as of August 31, 2018.

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

	DB SERP		VGP	
	2018	2017	2018	2017
Service cost, benefits earned during the year	\$ 184,230	\$ 93,018	\$ -	\$ -
Interest on projected benefit obligation	154,486	155,709	6,731,630	6,524,323
Expected return on assets	-	-	(11,982,442)	(11,637,234)
Amortization of actuarial loss	976,911	364,255	857,655	1,287,330
Amortization of prior service cost	88,333	177,565	109,660	109,660
Pension Settlement	644,675	548,719	-	-
Total pension related expense	<u>\$ 2,048,635</u>	<u>\$ 1,339,266</u>	<u>\$ (4,283,497)</u>	<u>\$ (3,715,921)</u>

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

	DB SERP		DC SERP	VGP	
	2018	2017	2018	2018	2017
Funded status at end of year					
Projected benefit obligation	\$ (6,666,062)	\$ (7,488,343)	\$(1,000,586)	\$ (179,024,088)	\$ (187,306,430)
Plan assets at fair market value	-	-	-	174,673,684	176,505,795
Deficiency of plan assets over projected benefit obligation	\$ (6,666,062)	\$ (7,488,343)	\$(1,000,586)	\$ (4,350,404)	\$ (10,800,635)
Amounts recognized in the consolidated balance sheet consist of					
Current liability	\$ (493,644)	\$ (1,308,059)	\$ -	\$ -	\$ -
Noncurrent liability	(6,172,418)	(6,180,284)	(1,000,586)	(4,350,404)	(10,800,635)
	\$ (6,666,062)	\$ (7,488,343)	\$ (1,000,586)	\$ (4,350,404)	\$ (10,800,635)

All previously unrecognized actuarial gains and losses and prior service costs are reflected in the consolidated balance sheets. An estimate of \$2,033,000 and \$1,939,000 of this amount is included as a component of pension expense in fiscal 2018 and 2017, respectively.

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs in fiscal 2019 are as follows:

	DB SERP	VGP
Actuarial loss	\$ 654,845	\$ 846,021
Prior service cost	33,790	109,660
Transition (asset) or obligation	-	-
Total	\$ 688,635	\$ 955,681

The change in the projected benefit obligation during fiscal 2018 and 2017 is summarized as follows:

	DB SERP		VGP	
	2018	2017	2018	2017
Projected benefit obligation at beginning of measurement year	\$ 7,488,343	\$ 4,660,983	\$ 187,306,430	\$ 196,184,002
Service cost	184,230	93,018	-	-
Interest cost	154,486	155,709	6,731,630	6,524,323
Actuarial loss (gain)	151,171	3,670,870	(9,177,486)	(8,203,306)
Benefits paid	(1,312,168)	(1,092,237)	(5,836,486)	(7,198,589)
Projected benefit obligation at end of measurement year	\$ 6,666,062	\$ 7,488,343	\$ 179,024,088	\$ 187,306,430

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The projected benefit obligation for the VGP was \$179,024,000 and \$187,306,000 at August 31, 2018 and 2017, respectively. The accumulated benefit obligation for the DB SERP plan was \$5,604,000 and \$6,194,000 at August 31, 2018 and 2017, respectively.

The change in plan assets during fiscal 2018 and 2017 is summarized as follows:

	VGP	
	2018	2017
Plan assets, at fair value at beginning of measurement year	\$ 176,505,795	\$ 162,167,838
Actual return on plan assets	4,004,375	21,536,546
Employer contributions	-	-
Benefits paid	<u>(5,836,486)</u>	<u>(7,198,589)</u>
Plan assets, at fair value at end of measurement year	<u>\$ 174,673,684</u>	<u>\$ 176,505,795</u>

The following table presents the plan investments carried at fair value as of August 31, 2018, by caption, by the valuation hierarchy defined in Note 6:

	Level 1	Level 2	Level 3	Investments	Total
				Measured at NAV or Equivalent	
Assets					
Investments					
Short-term investments	\$ -	\$ -	\$ -	\$ 3,013,290	\$ 3,013,290
Common stock	83,232	-	-	40,315,989	40,399,221
Alternative investments	-	-	-	-	-
Other fixed income	-	-	-	<u>131,261,173</u>	<u>131,261,173</u>
Total assets at fair value	<u>\$ 83,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,590,452</u>	<u>\$ 174,673,684</u>

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 6:

	Level 1	Level 2	Level 3	Investments	Total
				Measured at NAV or Equivalent	
Assets					
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	-	-	-	<u>113,812,961</u>	<u>113,812,961</u>
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>

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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.

The Medical Center’s pension plan weighted-average asset allocation at August 31, 2018 and 2017, by asset category is as follows:

	2018	2017
Asset category		
Return-seeking assets	23 %	35 %
Liability-hedging assets	77	65
	<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.

The objective 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.

Estimated future pension benefit payments for the next ten years are as follows:

	DB SERP	DC SERP	VGP	Total
Years Ending August 31,				
2019	\$ 493,644	\$ -	\$ 11,697,492	\$ 12,191,136
2020	1,463,843	100,000	10,339,126	11,902,969
2021	3,736,114	100,000	10,888,683	14,724,797
2022	889,359	900,000	10,693,506	12,482,865
2023	1,153,774	200,000	10,712,011	12,065,785
2024-2027	912,336	1,400,000	49,112,049	50,824,385
	<u>\$ 8,649,070</u>	<u>\$ 2,700,000</u>	<u>\$ 103,442,867</u>	<u>\$ 114,191,937</u>

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Weighted-average assumptions used to determine benefit obligations at August 31, 2018 and 2017 are as follows:

	DB SERP		DC SERP		VGP	
	2018	2017	2018	2017	2018	2017
Discount rate	3.2%	2.2%	-	-	4.2%	3.7%
Rate of compensation increase	4.0	4.0	4.0	-	-	-

Weighted-average assumptions used to determine net periodic pension benefit cost in fiscal 2018 and 2017 are as follows:

	DB SERP		DC SERP		VGP	
	2018	2017	2018	2017	2018	2017
Discount rate	2.2%	3.5%	-	-	3.7%	3.5%
Expected return on plan assets	-	-	6%	-	7.0	7.5
Rate of compensation increase	4.0	4.0	4.0	-	-	-

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.

10. 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 ('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 hospital in Streeterville. 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 Series 2008B bonds.

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In January 2018, the Illinois Finance Authority issued \$223,550,000 of Taxable Revenue Refunding Bonds (‘Series 2018’) at par value on behalf of the Hospital. The proceeds of the Series 2018 bonds were used to refund the \$212,000,000 par amount of the Series 2008A bonds. The Medical Center recorded a debt refinancing loss of \$10,401,000 and \$9,329,000 in extinguishment of the Series 2008A and 2008B Bonds as a nonoperating item in the consolidated statements of operation and change in net asset as of August 31, 2018 and 2017, respectively. The loss on the debt refinancing was a result of the Medical Center writing off the 2008A series unamortized discount, unamortized issuance costs and accrued interest. The Medical Center’s long-term bonds are issued under a Master Trust Indenture (‘Indenture’) dated May 1, 2008, as amended and restated. There are no significant changes to the underlying covenants in the Indenture, including inclusion of the calculations of debt service and days cash on hand ratios. 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 2017 and 2018 are the only outstanding bonds of the Medical Center. The chart below outlines debt as of August 31, 2018 and 2017:

	2018	2017
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
Illinois Finance Authority revenue bonds, Series 2008B, fixed interest rate ranging from 5.25% to 5.50%.	-	5,150,000
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	135,480,000
Illinois Finance Authority taxable revenue bonds, Series 2018, fixed interest rate ranging from 3.49% to 3.94%, maturing annually in principal amounts ranging from \$4,840,000 in August 2028 to \$160,275,000 in August 2047.	<u>223,550,000</u>	<u>-</u>
Total debt outstanding	359,030,000	352,630,000
Unamortized premium	12,170,459	11,199,422
Less: Debt issuance costs	<u>(3,879,781)</u>	<u>(5,746,026)</u>
Long-term debt	<u>\$ 367,320,678</u>	<u>\$ 358,083,396</u>
	2018	2017
Current portion	\$ 5,115,000	\$ 5,150,000
Long-term portion	<u>353,915,000</u>	<u>347,480,000</u>
Total principal outstanding at par value	<u>\$359,030,000</u>	<u>\$ 352,630,000</u>

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The estimated fair value of the Medical Center’s total debt outstanding was approximately \$364,658,000 as of August 31, 2018. This estimate is based on market interest rates and other relevant information and input from financial advisors classified as Level 2 in the fair market value hierarchy.

Future maturities of total outstanding debt at August 31, 2018, are as follows:

Years Ending August 31,	
2019	\$ 5,115,000
2020	5,375,000
2021	5,640,000
2022	5,920,000
2023	6,220,000
Thereafter	<u>330,760,000</u>
	<u>\$ 359,030,000</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, 2018 and 2017.

As of August 31, 2018, 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 2018 or 2017. One outstanding letter of credit supporting the construction of the hospital in Streeterville of \$597,000 reduces the available lines of credit.

11. Operating Leases

The Medical Center leases certain buildings, office space, parking, and equipment under noncancelable operating leases. Rental expenses associated with these leases were approximately \$19,866,000 and \$14,056,000 in 2018 and 2017, 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 noncancelable lease obligations at August 31, 2018, are as follows:

Years Ending August 31,	
2019	\$ 13,929,000
2020	15,259,000
2021	15,592,000
2022	14,964,000
2023	12,460,000
Thereafter	<u>87,564,000</u>
	<u>\$ 159,768,000</u>

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

12. 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 nonemployed 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 \$32,000,000 and \$28,000,000 in expense for fiscal 2018 and 2017, respectively, for self-insured professional and general liability risk. The Medical Center's self-insurance liability has been discounted at 5% in fiscal 2018 and 2017. The effect of discounting the value of estimated liabilities was approximately \$24,980,000 and \$24,200,000 at August 31, 2018 and 2017, respectively. Further, the Medical Center recorded an estimated liability of \$113,954,000 and \$104,622,000 at August 31, 2018 and 2017, respectively, for self-insured professional and general liability risk.

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, 2018 and 2017, premiums ceded to reinsurers were \$1,984,000 and \$1,932,000, respectively, and reinsurance recoveries on unpaid losses on an undiscounted basis, were \$27,149,000 and \$32,667,000, respectively. CMMC Insurance is operated to break even after all expenses.

13. Transactions With Related Parties

Certain of the Medical Center's affiliated physicians participate in independent physician faculty practice plan corporations. At August 31, 2018 and 2017, amounts due from the physician practice groups totaled approximately \$5,502,000 and \$2,011,000, respectively, a portion of which is included in other current assets.

The Medical Center paid approximately \$4,711,000 and \$5,100,000 in fiscal 2018 and 2017, respectively, 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 \$11,784,000 and \$9,751,000 in fiscal 2018 and 2017, 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, 2018 and 2017

14. 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:

	2018	2017
Patient care services	\$ 780,983,753	\$ 709,620,016
General and administrative	146,160,101	140,274,473
Research and programs	64,365,125	56,777,121
Fundraising	17,502,176	16,361,679
Medicaid Assessment Program Tax (Note 3)	20,179,685	19,218,966
	<u>\$1,029,190,840</u>	<u>\$ 942,252,255</u>

15. 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.

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.

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Notes to Consolidated Financial Statements

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Property 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, 2018, \$133,707,000 has been spent life to date and is included in construction in progress on the consolidated balance sheets.

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 2018. The buildout was completed on the 22nd floor while the ASTC is near completion. In addition, construction in progress of an additional 24 beds for hematology/oncology is ongoing.

Investments

The Medical Center has contractual commitments totaling \$132,500,000 with its private equity investment funds. As of August 31, 2018, the Medical Center's remaining capital commitments are \$81,035,000. 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, 2018 and 2017, was \$416,000 and \$406,000, respectively, which is recorded as accrued expenses in the consolidated balance sheets.

16. 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.

On October 30, 2018, the Research Center sold its Halsted building and entered into a leaseback of the property through June 2019.

Supplemental Information

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Consolidating Balance Sheet

August 31, 2018

	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
Assets														
Current assets														
Cash and cash equivalents	\$ 30,653,178	\$ -	\$ -	\$ 30,653,178	\$ -	\$ -	\$ 5,608,955	\$ 5,000	\$ -	\$ 214,012	\$ -	\$ -	\$ -	\$ 36,481,145
Current portion of self-insurance trust	15,000,000	-	-	15,000,000	-	-	-	-	-	-	-	-	-	15,000,000
Accounts receivable, net of allowance for uncollectible accounts of \$28,060,000	124,104,027	-	-	124,104,027	-	13,066,339	3,013,047	428,187	-	-	5,300	565,454	-	141,182,354
Other current assets	45,505,204	663,535	-	46,168,739	286,018	6,737,385	596,844	32,504	76,025	26,611,484	538,174	437,133	-	81,484,306
Total current assets	215,262,409	663,535	-	215,925,944	286,018	19,803,724	9,218,846	465,691	76,025	26,825,496	543,474	1,002,587	-	274,147,805
Investments	1,417,896,871	-	-	1,417,896,871	-	-	-	-	120,000	-	-	-	(120,000)	1,417,896,871
Property and equipment, at cost	1,412,625,018	1,614,953	-	1,414,239,971	190,766,636	-	-	2,328,499	-	-	-	3,531,607	-	1,610,866,713
Less: Accumulated depreciation	511,124,908	1,614,953	-	512,739,862	35,009,202	-	-	525,914	-	-	-	1,431,198	-	549,706,176
Total property and equipment, net	901,500,109	-	-	901,500,109	155,757,434	-	-	1,802,585	-	-	-	2,100,409	-	1,061,160,537
Other assets	58,694,494	-	-	58,694,494	-	-	-	-	-	-	-	-	-	58,694,494
Pledges receivable restricted by donors, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-	-	1,417,706	-	1,417,706
Other assets	17,555,781	-	-	17,555,781	-	-	-	-	-	-	-	-	-	17,555,781
Total other assets	76,250,275	-	-	76,250,275	-	-	-	-	-	-	-	1,417,706	-	77,667,981
Total assets	\$ 2,610,909,664	\$ 663,535	\$ -	\$ 2,611,573,199	\$ 156,043,452	\$ 19,803,724	\$ 9,218,846	\$ 2,268,276	\$ 196,025	\$ 26,825,496	\$ 543,474	\$ 4,520,702	\$ (120,000)	\$ 2,830,873,194
Liabilities and Net Assets														
Current liabilities														
Accounts payable and accrued expenses	\$ 148,302,215	\$ 3,155,527	\$ -	\$ 151,457,742	\$ 2,314,221	\$ 9,307,862	\$ 4,062,948	\$ 531,413	\$ -	\$ 26,675,619	\$ 8,539	\$ 848,231	\$ -	\$ 195,206,575
Current portion of self-insurance liability	15,000,000	-	-	15,000,000	-	-	-	-	-	-	-	-	-	15,000,000
Due to third-party payors	39,699,406	-	-	39,699,406	-	2,561,008	545,543	-	-	-	-	-	-	42,805,957
Current portion of long-term debt	5,115,000	-	-	5,115,000	-	-	-	-	-	-	-	-	-	5,115,000
Total current liabilities	208,116,621	3,155,527	-	211,272,148	2,314,221	11,868,870	4,608,491	531,413	-	26,675,619	8,539	848,231	-	258,127,532
Other liabilities	98,954,218	-	-	98,954,218	-	-	-	-	-	-	-	-	-	98,954,218
Self-insurance liability	40,632,109	-	-	40,632,109	-	-	-	296,769	-	-	-	87,993	-	41,016,871
Other noncurrent liabilities	139,586,327	-	-	139,586,327	-	-	-	296,769	-	-	-	87,993	-	139,971,089
Long-term debt	362,205,678	-	-	362,205,678	-	-	-	-	-	-	-	-	-	362,205,678
Total liabilities	709,908,626	3,155,527	-	713,064,153	2,314,221	11,868,870	4,608,491	828,182	-	26,675,619	8,539	936,224	-	760,304,299
Stockholder's equity	-	-	-	-	-	-	-	-	120,000	-	-	-	(120,000)	-
Common stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-	-	-	29,877	-	-	-	(29,877)	-
Total stockholder's equity	-	-	-	-	-	-	-	-	149,877	-	-	-	(149,877)	-
Net assets	1,420,485,616	(2,491,992)	-	1,417,993,624	153,729,231	7,934,854	4,610,355	1,440,094	196,025	-	534,935	3,584,478	29,877	1,590,053,473
Temporarily restricted	289,623,344	-	-	289,623,344	-	-	-	-	-	-	-	-	-	289,623,344
Permanently restricted	190,892,078	-	-	190,892,078	-	-	-	-	-	-	-	-	-	190,892,078
Total net assets	1,901,001,038	(2,491,992)	-	1,898,509,046	153,729,231	7,934,854	4,610,355	1,440,094	196,025	-	534,935	3,584,478	29,877	2,070,568,895
Total liabilities and net assets	\$ 2,610,909,664	\$ 663,535	\$ -	\$ 2,611,573,199	\$ 156,043,452	\$ 19,803,724	\$ 9,218,846	\$ 2,268,276	\$ 196,025	\$ 26,825,496	\$ 543,474	\$ 4,520,702	\$ (120,000)	\$ 2,830,873,194

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
Assets														
Current assets														
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
Total current assets	232,566,576	745,200	-	233,311,776	278,459	18,975,728	8,455,547	1,870,168	76,025	34,814,669	300,036	1,059,759	-	299,142,167
Investments	1,318,325,752	-	-	1,318,325,752	-	-	-	-	120,000	-	-	-	(120,000)	1,318,325,752
Property and equipment, at cost	1,285,651,578	1,614,953	-	1,287,266,531	134,025,143	-	-	2,204,366	-	-	-	3,504,599	-	1,427,000,639
Less: Accumulated depreciation	447,673,761	1,614,953	-	449,288,714	32,431,114	-	-	441,745	-	-	-	804,260	-	482,965,833
Total property and equipment, net	837,977,817	-	-	837,977,817	101,594,029	-	-	1,762,621	-	-	-	2,700,339	-	944,034,806
Other assets														
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
Total other assets	45,011,339	-	-	45,011,339	-	-	-	-	-	-	-	1,417,706	-	46,429,045
Total assets	\$ 2,433,881,484	\$ 745,200	\$ -	\$ 2,434,626,684	\$ 101,872,488	\$ 18,975,728	\$ 8,455,547	\$ 3,632,789	\$ 196,025	\$ 34,814,669	\$ 300,036	\$ 5,177,804	\$ (120,000)	\$2,607,931,770
Liabilities and Net Assets														
Current liabilities														
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	\$ -	\$160,588,644
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
Total current liabilities	183,833,335	3,130,100	-	186,963,435	5,459,690	11,563,648	5,250,680	473,159	-	34,671,140	807	1,464,405	-	245,846,964
Other liabilities														
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
Total other liabilities	124,622,402	-	-	124,622,402	-	-	-	316,630	-	-	-	-	-	124,939,032
Long-term debt	352,933,396	-	-	352,933,396	-	-	-	-	-	-	-	-	-	352,933,396
Total liabilities	661,389,133	3,130,100	-	664,519,233	5,459,690	11,563,648	5,250,680	789,789	-	34,671,140	807	1,464,405	-	723,719,392
Stockholder's equity														
Common stock	-	-	-	-	-	-	-	-	-	120,000	-	-	(120,000)	-
Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-	-	-	-	23,529	-	-	(23,529)	-
Total stockholder's equity	-	-	-	-	-	-	-	-	-	143,529	-	-	(143,529)	-
Net assets														
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
Total net assets	1,772,492,351	(2,384,900)	-	1,770,107,451	96,412,798	7,412,080	3,204,867	2,843,000	196,025	-	299,229	3,713,399	23,529	1,884,212,378
Total liabilities and net assets	\$ 2,433,881,484	\$ 745,200	\$ -	\$ 2,434,626,684	\$ 101,872,488	\$ 18,975,728	\$ 8,455,547	\$ 3,632,789	\$ 196,025	\$ 34,814,669	\$ 300,036	\$ 5,177,804	\$ (120,000)	\$ 2,607,931,770

Children's Hospital of Chicago Medical Center and Affiliated Corporations

Consolidating Statement of Operation and Change in Unrestricted Net Assets

Year Ended August 31, 2018

	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
Operating revenue														
Patient service revenue, net of contractual allowances and discounts	\$ 827,824,019	\$ -	\$ -	\$ 827,824,019	\$ -	\$ 101,604,483	\$ 16,972,597	\$ 4,196,137	\$ -	\$ -	\$ -	\$ 17,973,951	\$ (313,147)	\$968,258,040
Provision for doubtful accounts	10,812,309	-	-	10,812,309	-	3,754,807	417,130	9,907	-	-	-	58,330	-	15,052,483
Net patient service revenue	817,011,710	-	-	817,011,710	-	97,849,676	16,555,467	4,186,230	-	-	-	17,915,621	(313,147)	953,205,557
Net assets released from restrictions														
Contributions and philanthropy used for program purposes	32,725,755	-	-	32,725,755	9,275,490	2,351,914	-	66,850	-	-	-	-	(11,693,254)	32,725,755
Grants and other restricted income used for program purposes	42,224,268	-	-	42,224,268	8,794,353	4,607,977	471,260	-	-	-	-	-	(13,873,590)	42,224,268
Board-designated endowment income	11,244,665	-	-	11,244,665	1,172,013	1,014,764	231,540	-	-	-	-	-	(2,418,317)	11,244,665
Other operating revenue	37,055,897	-	-	37,055,897	119,323	38,342,155	5,397,682	1,033,891	-	84,790	324,162	72,091	(23,665,710)	58,764,281
Total operating revenue	940,262,295	-	-	940,262,295	19,361,179	144,166,486	22,655,949	5,285,971	-	84,790	324,162	17,987,712	(51,964,018)	1,098,164,526
Operating expenses														
Salaries, wages, and employee benefits	422,700,550	10,223,732	(10,223,732)	422,700,550	19,155,856	142,238,389	21,337,561	6,252,165	494,144	-	1,482,329	11,576,218	(39,412,173)	585,825,039
Supplies and services	322,257,355	7,081,732	(7,081,732)	322,257,355	9,308,153	28,461,567	4,446,189	877,962	185,292	79,689	214,328	7,008,924	(14,086,188)	358,753,271
Depreciation	62,365,279	-	-	62,365,279	2,499,625	-	-	84,169	-	-	-	626,938	1,534,343	67,110,354
Total operating expenses	807,323,184	17,305,464	(17,305,464)	807,323,184	30,963,634	170,699,956	25,783,750	7,214,296	679,436	79,689	1,696,657	19,212,080	(51,964,018)	1,011,688,864
Income (loss) from operations before interest and amortization	132,939,111	(17,305,464)	17,305,464	132,939,111	(11,602,455)	(28,533,470)	(3,127,801)	(1,928,325)	(679,436)	5,101	(1,372,495)	(1,224,368)	-	86,475,862
Interest and amortization of financing costs	18,256,510	-	-	18,256,510	-	-	-	-	-	-	-	-	-	18,256,510
Income (loss) from operations	114,682,601	(17,305,464)	17,305,464	114,682,601	(11,602,455)	(28,533,470)	(3,127,801)	(1,928,325)	(679,436)	5,101	(1,372,495)	(1,224,368)	-	68,219,352
Nonoperating income (expense), net														
Investment return	60,696,454	-	-	60,696,454	-	-	-	-	-	1,247	-	-	-	60,697,701
Unrestricted Contributions and bequests	-	19,551,523	-	19,551,523	-	-	-	990,740	-	-	-	-	-	20,542,263
Fund-raising expense	-	-	(17,305,464)	(17,305,464)	-	-	-	(196,712)	-	-	-	-	-	(17,502,176)
Gain (loss) on disposal of fixed assets	(70,065)	-	-	(70,065)	-	-	-	-	-	-	-	-	-	(70,065)
Loss on debt refinancing	(10,400,807)	-	-	(10,400,807)	-	-	-	-	-	-	-	-	-	(10,400,807)
Other	(11,509,966)	-	-	(11,509,966)	-	-	-	19,861	-	-	-	-	-	(11,490,105)
Total nonoperating income(loss)	38,715,616	19,551,523	(17,305,464)	40,961,675	-	-	-	813,889	-	1,247	-	-	-	41,776,811
Excess (deficiency) of revenue over expenses	153,398,217	2,246,059	-	155,644,276	(11,602,455)	(28,533,470)	(3,127,801)	(1,114,436)	(679,436)	6,348	(1,372,495)	(1,224,368)	-	109,996,163
Net assets released from restrictions used for purchase of property and equipment	829,787	-	-	829,787	-	-	-	-	-	-	-	-	-	829,787
Retirement plan-related change other than net periodic retirement plan expense	3,518,639	-	-	3,518,639	-	-	-	-	-	-	-	-	-	3,518,639
Net assets transferred from newly affiliated organization	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	139,818	-	-	139,818	-	-	-	-	-	-	-	-	-	139,818
Transfers (to) from affiliates	(101,249,884)	(2,353,151)	-	(103,603,035)	68,918,888	27,056,244	4,533,289	(288,470)	679,436	-	1,608,201	1,095,447	-	-
Increase (decrease) in unrestricted net assets	\$ 56,636,577	\$ (107,092)	\$ -	\$ 56,529,485	\$ 57,316,433	\$ 522,774	\$ 1,405,488	\$ (1,402,906)	\$ -	\$ 6,348	\$ 235,706	\$ (128,921)	\$ -	\$ 114,484,407

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
Operating revenue														
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
Operating expenses														
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	2,158,609	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
Nonoperating income (expense), net														
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets transferred from newly affiliated organization	16,424,784	-	-	16,424,784	-	-	-	-	-	-	-	-	-	16,424,784
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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