

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

**Consolidated Financial Statements  
August 31, 2019 and 2018**

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

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August 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 11, 2019

**Children's Hospital of Chicago Medical Center and Affiliated Corporations**  
**Consolidated Balance Sheets**  
**August 31, 2019 and 2018**

	2019	2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$34,934,109	\$36,481,145
Current portion of self-insurance trust	9,800,000	15,000,000
Accounts receivable, net of allowance for uncollectible accounts of \$25,497,000 and \$28,060,000 in 2019 and 2018, respectively	257,322,862	141,182,354
Other current assets	89,066,886	81,484,306
Total current assets	<u>391,123,857</u>	<u>274,147,805</u>
Investments	<u>1,367,325,954</u>	<u>1,417,896,871</u>
Property and equipment, at cost		
Land	35,242,506	38,234,151
Buildings and improvements	1,181,422,372	1,016,010,062
Equipment	426,158,685	366,193,404
Construction in progress	38,381,235	190,429,096
Total property and equipment, at cost	<u>1,681,204,798</u>	<u>1,610,866,713</u>
Less: Accumulated depreciation	<u>589,065,520</u>	<u>549,706,176</u>
Property and equipment, net	<u>1,092,139,278</u>	<u>1,061,160,537</u>
Other assets		
Pledges receivable restricted by donors, net	65,282,971	58,694,494
Goodwill	1,417,706	1,417,706
Other	17,246,530	17,555,781
Total other assets	<u>83,947,207</u>	<u>77,667,981</u>
Total assets	<u>\$2,934,536,296</u>	<u>\$2,830,873,194</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$226,388,239	\$195,206,575
Current portion of self-insurance liability	9,800,000	15,000,000
Due to third-party payors	32,627,220	42,805,957
Current portion of long-term debt	5,375,000	5,115,000
Total current liabilities	<u>274,190,459</u>	<u>258,127,532</u>
Other liabilities		
Self-insurance liability	113,593,663	98,954,218
Other noncurrent liabilities	62,772,098	41,016,871
Total other liabilities	<u>176,365,761</u>	<u>139,971,089</u>
Long-term debt	<u>356,025,568</u>	<u>362,205,678</u>
Total liabilities	<u>806,581,788</u>	<u>760,304,299</u>
Net assets		
Net assets without donor restrictions	1,647,095,676	1,590,053,473
Net assets with donor restrictions	480,858,832	480,515,422
Total net assets	<u>2,127,954,508</u>	<u>2,070,568,895</u>
Total liabilities and net assets	<u>\$2,934,536,296</u>	<u>\$2,830,873,194</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, 2019 and 2018**

	2019	2018
<b>Operating revenue</b>		
Patient service revenue, net of contractual allowance and discounts	\$1,114,355,923	\$968,258,040
Provision for doubtful accounts	11,204,137	15,052,483
Net patient service revenue	<u>1,103,151,786</u>	<u>953,205,557</u>
Net assets released from restriction		
Contributions and philanthropy used for program purposes	48,855,079	32,725,755
Grants and other restricted income used for program purposes	50,655,075	42,224,268
Board-designated endowment income	8,385,239	11,244,665
Other operating revenue	71,697,586	58,764,281
Total operating revenue	<u>1,282,744,765</u>	<u>1,098,164,526</u>
<b>Operating expenses</b>		
Salaries, wages, and employee benefits	735,368,272	585,825,039
Supplies and services	396,979,667	358,753,271
Depreciation	76,699,459	67,110,354
Total operating expenses	<u>1,209,047,398</u>	<u>1,011,688,664</u>
Income from operations before interest and amortization	73,697,367	86,475,862
Interest and amortization of financing costs	17,427,116	18,256,510
Income from operations	<u>56,270,251</u>	<u>68,219,352</u>
<b>Nonoperating income (expense)</b>		
Investment return (losses)/gains	(5,192,648)	60,697,701
Unrestricted contributions and bequests	22,429,224	20,542,263
Fundraising expense	(19,723,863)	(17,502,176)
Gain/(loss) on disposal of fixed assets	6,402,059	(70,065)
Loss on debt refinancing	-	(10,400,807)
Other	(9,759,226)	(11,490,105)
Total nonoperating (expense)/income	<u>(5,844,454)</u>	<u>41,776,811</u>
Excess of revenue over expenses	<u>50,425,797</u>	<u>109,996,163</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, 2019 and 2018**

	2019	2018
<b>Net assets without donor restrictions</b>		
Excess of revenue over expenses	\$50,425,797	\$109,996,163
Net assets released from restriction used for purchase and construction of property and equipment	881,523	829,787
Retirement plan related change other than net periodic retirement plan expense	(3,878,750)	3,518,639
Net assets transfer of newly affiliated entity	8,123,527	-
Other	1,490,106	139,818
Increase in net assets without donor restrictions	<u>57,042,203</u>	<u>114,484,407</u>
<b>Net assets with donor restrictions</b>		
Contributions	51,324,596	89,166,219
Grants and other restricted income	46,999,238	46,167,223
Change in fair value of perpetual trusts	(315,018)	746,020
Investment return	2,832,144	10,832,770
Pledge receivable write-offs, net of change in allowance	(105,873)	739,688
Net assets released from restriction		
Contributions and philanthropy used for program purposes	(48,855,079)	(32,725,755)
Grants and other restricted income used for program purposes	(50,655,075)	(42,224,268)
Purchase of property and equipment	(881,523)	(829,787)
Increase in net assets with donor restrictions	<u>343,410</u>	<u>71,872,110</u>
Increase in net assets	<u>57,385,613</u>	<u>186,356,517</u>
<b>Net assets</b>		
Beginning of year	<u>2,070,568,895</u>	<u>1,884,212,378</u>
End of year	<u>\$2,127,954,508</u>	<u>\$2,070,568,895</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, 2019 and 2018**

	2019	2018
<b>Cash flows from operating activities</b>		
Increase in net assets	\$57,385,613	\$186,356,517
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized losses/(gains) on investments	5,192,648	(60,697,701)
Restricted contributions and restricted investment return	(8,811,418)	(28,653,265)
(Gain)/Loss on disposal of fixed assets	(6,402,059)	70,065
Net assets transferred from newly affiliated entity	(8,123,527)	-
Receipt of contributed securities	(4,964,642)	(8,182,418)
Loss on debt refinancing	-	10,400,807
Investment loss - CIN and MCC	4,235,947	3,185,320
Retirement plan related change other than net periodic retirement plan expense	3,878,750	(3,518,639)
Depreciation and amortization	75,894,349	66,433,307
Provision for doubtful accounts	11,204,137	15,052,483
Net changes in assets and liabilities		
Accounts receivable, net	(127,344,645)	11,211,141
Accounts payable and accrued expenses	35,332,595	(5,946,751)
Due to third-party payors	(10,178,737)	(2,302,363)
Self-insurance liability	9,439,445	9,331,899
Other assets and liabilities	4,014,671	(22,454,239)
Net cash provided by operating activities	<u>40,753,127</u>	<u>170,286,163</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(135,112,065)	(159,083,326)
Proceeds from sale of property	23,400,529	-
Sales of investments	2,865,035,798	4,999,771,333
Purchases of investments	(2,801,731,601)	(5,024,196,494)
Cash received in conjunction with affiliation	2,501,527	-
Net cash used in investing activities	<u>(45,906,812)</u>	<u>(183,508,486)</u>
<b>Cash flows from financing activities</b>		
Principal payments under long-term debt obligations	(5,115,000)	(5,150,000)
Proceeds from long-term refinancing	-	223,550,000
Advance refunding of debt	-	(220,997,413)
Debt issuance costs	-	(2,552,587)
Proceeds from restricted contributions and restricted investment income	8,721,649	19,210,579
Net cash provided by financing activities	<u>3,606,649</u>	<u>14,060,579</u>
(Decrease)/increase in cash and cash equivalents	(1,547,036)	838,256
<b>Cash and cash equivalents</b>		
Beginning of year	<u>36,481,145</u>	<u>35,642,889</u>
End of year	<u>\$34,934,109</u>	<u>\$36,481,145</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest	\$14,877,000	\$16,153,000
Cash paid during the year for unrelated business income taxes	912,000	374,000
Noncash additions to property and equipment	23,753,000	34,188,000
Noncash acquisition of LCSF net assets	(2,152,000)	-

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, 2019 and 2018

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#### 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 Institute'), 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. Effective January 1, 2019, the Medical Center became sole member of Lurie Children's Surgical Foundation, Inc. ('LCSF') and Lurie Children's Pediatric Anesthesia Associates ('LCPAA') both Illinois not-for-profit corporations. The Children's Hospital of Chicago Faculty Practice Plan, Inc. ('FPP') is an Illinois not-for-profit affiliate of the Medical Center effective September 1, 2018.

The Hospital owns and operates a pediatric hospital in Chicago, Illinois with 364 licensed beds August 31, 2019, an increase from 296 licensed beds as of August 31, 2018. The intensive care unit beds made up 100 percent of the increase in beds. 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 Surgical Treatment Centers ('ASTC') facilities and thirteen outpatient specialty centers in the surrounding metro Chicago area. 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 Institute 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. The new research tower was completed and commissioned in June 2019. See Note 14 for additional disclosures.

PFF provides physician services to a broad pediatric population in Chicago and surrounding counties and across the State of Illinois, employing more than 530 pediatric primary care and subspecialty physicians. A portion of research activity also flows through PFF.

LCMG, with more than 60 employed physicians, provides pathology, medical imaging, psychiatry, and dentistry services to the Hospital and its patients.

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

## Notes to Consolidated Financial Statements

### August 31, 2019 and 2018

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

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.

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.

LCPC provides primary care services to Chicago residents and surrounding areas with 25 primary care pediatricians and three primary care locations.

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 \$51,000 and \$75,000 as of August 31, 2019 and 2018, 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 is committed to a three percent capital position, while the Medical Center and FPP are committed to a ninety-seven percent capital position, of which \$4,200,000 was contributed during fiscal year 2019. As the Medical Center does not have governance control, the CIN is not a consolidating entity but rather accounted for under the equity method.

LCSF provides pediatric surgical services to the Hospital and its patients, employing more than 75 surgeons among nine subspecialty divisions. LCSF became an affiliate of the Medical Center on January 1, 2019 in a noncash transaction of which the Medical Center recorded an initial inherent liability of \$2,152,000 related to an unfunded status of a cash balance pension plan which was included in net assets in the consolidated financial statements.

LCPAA provides pediatric anesthesia and pain management services to the Hospital and its patients employing more than 30 anesthesiologists. LCPAA became an affiliate of the Medical Center effective January 1, 2019 in a noncash transaction.

FPP provides credentialing services for physicians employed by the affiliates of the Medical Center, administration of physician benefits and third-party reimbursement contracting services for physician affiliates, comprising of over 800 physician members. The Medical Center has historically had a controlling Board membership of FPP and FPP is a consolidated affiliate as of August 31, 2019. The Medical Center recorded a beginning net assets adjustment of \$8,124,000 as of September 1, 2018 to correctly present FPP as a consolidated entity. The impact to prior years was immaterial.

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

## Notes to Consolidated Financial Statements

### August 31, 2019 and 2018

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#### **Consolidation**

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

The accompanying consolidating balance sheets and consolidating statements of operation and change in net assets without donor restrictions by entity as of August 31, 2019 and 2018 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.

#### **2. Income Taxes**

Under Section 501(c)(3) of the Internal Revenue Code, the Medical Center, the Hospital, the Research Institute, the Foundation, PFF, FPP, and AHK are all Illinois not-for-profit organizations exempt from federal and state income taxes. LCSF and LCPAA applied for exemption under Section 501(c)(3) of the Internal Revenue Code.

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, 2019 and 2018 respectively, \$1,290,000 and \$2,469,000 were recorded respectively as provision for unrelated business income tax and included in other nonoperating expense in the consolidated statements of operation and change in net assets. Of the current year provision for unrelated business income tax \$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. The Medical Center adopted this standard as of August 31, 2019, using a modified retrospective approach. With the adoption of this standard, the Medical Center assessed all revenue streams and determined no significant impact to the consolidated financial statements, other than modification to presentation and additional disclosures. See Note 3 for additional disclosures related to this standard.

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

## Notes to Consolidated Financial Statements

### August 31, 2019 and 2018

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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 several existing GAAP disclosures. The Medical Center adopted this standard as of August 31, 2019. No material impact to the consolidated financial statements was noted.

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. FASB also issued various improvement amendments to this ASU. This standard is now effective for annual periods beginning after December 15, 2020. 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, 2019.

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. The Medical Center adopted this standard as of August 31, 2019 with retrospective presentation of the financial statements and disclosures. See Notes 7 and 14.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contribution Made*, which is intended to provide users of financial statements with information to clarify and/or improve current guidance about whether a transfer of assets is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The Medical Center adopted this standard as of August 31, 2019. No material impact to the consolidated financial statements was noted.

#### **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.

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

## Notes to Consolidated Financial Statements

August 31, 2019 and 2018

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### 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 2019 and 2018 are as follows:

	2019	2018
Outreach Hospitals and Practice Plan Receivables	\$14,562,644	\$19,187,179
Prepaid expenses	21,635,776	19,811,365
Inventory	12,407,516	11,336,622
Insurance receivables (Note 12)	24,786,785	24,619,382
Other	15,674,164	6,529,758
Total other current assets	<u>\$89,066,886</u>	<u>\$81,484,306</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 net assets without donor restrictions and net assets with donor restrictions 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 net assets with restrictions are allocated to the purposes specified by the donor or law, either as net assets with donor restrictions or net assets without donor restrictions, 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,

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

## Notes to Consolidated Financial Statements

### August 31, 2019 and 2018

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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 life 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 life 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 2019 and 2018, the Medical Center disposed of fully depreciated assets of \$57,014,000 and \$491,000, respectively, of property, equipment and software that were no longer in use of which \$36,692,000 related directly to the Research Institute's Halsted building, which was vacated with the completion of the new research tower. The Medical Center continually evaluates whether circumstances have occurred that would indicate the 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 recognized accelerated depreciation compared to original estimates over reduced estimated useful lives to depreciate the buildings, leasehold improvements and equipment of the Research Institute's Halsted location to the date of expected vacancy. During August 31, 2018, the Medical Center recognized \$1,733,000 of accelerated depreciation on these assets.

#### Pledges Receivable Restricted by Donors

As of August 31, 2019, approximately 22% of pledges restricted by donors are receivable within one year, 45% between two and five years, and 33% receivable beyond five years. Pledges are recorded at the present value of estimated future cash flow, net of allowances for uncollectible pledges of \$2,397,000 and \$2,498,000 at August 31, 2019 and 2018, respectively, and present value discounts of \$20,196,000 and \$18,340,000 at August 31, 2019 and 2018, respectively. Estimated future cash flows due after one year are discounted using interest rates of 3.5% to 8% commensurate with estimated collection risks.

#### 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.

#### 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 \$3,617,000 and \$3,880,000 at August 31, 2019 and August 31, 2018, respectively.

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**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.

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

The self-insurance trust and corresponding liability are reviewed annually by an independent actuary. The Medical Center contributes to the self-insurance trust estimated amounts determined by the actuary to be sufficient to pay for expected future losses. Provisions for the professional liability are based on an actuarial estimate of losses using the Medical Center’s actual loss data adjusted for industry trends and current conditions. The provision includes estimates of costs for both reported claims and claims incurred but not reported. See Note 12.

**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.

**Other Noncurrent Liabilities**

Other noncurrent liabilities for fiscal year 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Accrued pension liabilities	\$21,802,453	\$16,688,485
Lease obligations	40,486,404	24,031,616
Other	<u>483,241</u>	<u>296,770</u>
Total other noncurrent liabilities	<u>\$62,772,098</u>	<u>\$41,016,871</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: Net assets without donor restrictions and Net assets with donor restrictions.

Net assets without donor restrictions represents net assets which are free of donor-imposed restrictions, including all revenues, expenses, gains, and losses.

Net assets with donor restrictions represents 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. Net assets with donor restrictions include endowment funds primarily related to pledges receivables, grants, program support and 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.

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

## Notes to Consolidated Financial Statements

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#### **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 the purchase and construction of property and equipment.

#### **Net Patient Service Revenue**

The Medical Center provides health care services through various inpatient, outpatient, and ambulatory care facilities. The performance obligation is measured from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Outpatient services are performance obligations generally satisfied at a point in time and revenue is recognized when goods or services are provided. The Medical Center believes that this method provides a fair depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations. The Medical Center recognizes inpatient revenue over time (on a daily basis), while outpatient revenue is recognized at a point in time at the amount that reflects the consideration to which it expects to be paid for providing such care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and include variable consideration for retroactive adjustments due to settlement of audits and reviews by Illinois Medicaid and other third-party payors, and amounts received under various state Medicaid hospital assessment and disproportionate share programs. These amounts are recognized net of contractual allowance from various third-party arrangements and after consideration of patient ability to pay the self-pay portion of the charges. The Medical Center and affiliates bills patients and third-party payors after goods and services are provided and/or when a patient is discharged.

The Medical Center, the Hospital or any of the affiliated entities are entitled to a payment from the insurer, and a related deductible or coinsurance payment from the patient, for all goods and services related to the inpatient stay or outpatient services.

Because all of the performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in FASB ASU 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which typically occurs within days or weeks of the end of the Medical Center's reporting period.

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The Medical Center determines the transaction price based on standard charges for goods and services provided to patients reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Medical Center's policy, and/or implicit price concessions provided to uninsured and underinsured patients. It determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Medical Center determines its estimate of implicit price concessions based on the aging of its patient accounts receivable, historical collection experience with uninsured and underinsured patients, and other relevant factors.

Patients who meet the Medical Center's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as net patient service revenue. The Medical Center grants credit without collateral to its patients, most of whom are local residents.

The Medical Center uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient, outpatient, and physician professional and outpatient revenue. Based on historical collection trends and other relevant factors, the Medical Center believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

The Medical Center has agreements with third-party payors that provide payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors are explained further below.

#### **Illinois Medicaid and Managed Care Organizations**

Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments and fee schedules.

The State of Illinois' Medicaid program has operated with budget deficits. The deficits include the continued practice of deferring Illinois Medicaid bills to future periods and have led to the State of Illinois' slowdown in claims processing and payments.

As of August 31, 2019, and 2018, the Medical Center's patient accounts receivable included amounts due from Illinois Medicaid and managed care Medicaid of approximately \$156,604,000 and \$81,000,000, respectively, representing approximately 60% and 56%, respectively, of outstanding receivable.

#### **Managed Care, Commercial Insurance and Other**

Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules.

Commercial and Medicaid health insurers are entering into various fee-for-value reimbursement programs with qualifying providers. In 2019 and 2018, the Medical Center through CIN, participated in several commercial Accountable Care organization ('ACO') programs that provide limited risk and gain sharing based on performance of an attributed population of children compared to established cost, quality and patient satisfaction related goals. Risk sharing is limited to less than 1% of net revenue. CIN obtains reinsurance to reduce the risk of loss related to sharing programs and conducts

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a number of programs intended to improve performance under these programs, including providing care coordination to certain members. The composition of net patient service revenue by payor for the years ended August 31, 2019 and 2018, is as follows:

	<b>2019</b>	<b>2018</b>
Managed Care	\$673,213,079	\$596,496,419
Illinois Medicaid	157,502,722	139,208,044
Medicaid Managed Care	216,979,406	175,278,523
Patient Self-Pay	20,293,809	14,399,945
Other	35,162,771	27,822,625
	<u>\$1,103,151,786</u>	<u>\$953,205,557</u>

The Medical Center and affiliates grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at August 31, 2019 and 2018, is as follows:

	<b>2019</b>	<b>2018</b>
Managed Care	\$69,064,225	\$37,334,539
Illinois Medicaid	75,580,779	42,803,762
Medicaid Managed Care	80,454,907	38,244,441
Patient Self-Pay	11,868,277	8,869,006
Other	20,354,674	14,330,606
	<u>\$257,322,862</u>	<u>\$141,182,354</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties, and/or exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term.

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 \$11,575,000 and \$3,413,000, respectively, in fiscal year 2019 and 2018.

Approximately 34% and 33% respectively, of the Medical Center’s net patient service revenue in fiscal 2019 and 2018 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

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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 Medical Center is obligated under Illinois Public Act 95-859 to participate in the State of Illinois' Hospital Assessment Program ("HAP") that assists in financing the State's Medicaid Program. The programs are approved through June 30, 2020 and include a payment shift to live rates. For the years ended August 31, 2019 and 2018, the Medical Center's Illinois Health Centers recognized supplemental HAP and related reimbursement of approximately \$46,600,000 and \$63,800,000, respectively, which is recorded as a component of net patient service revenue in the consolidated statements of operations and changes in net assets. For the years ended August 31, 2019 and 2018, the Medical Center's Illinois Health Centers recognized HAP related fees of \$22,000,000 and \$20,200,000, respectively, in the consolidated statements of operation and change in net assets.

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

	2019	2018
For fiscal year ended August 31		
Tax assessment, included in net patient service revenue	\$46,615,835	\$63,841,860
Tax expense, included in supplies and service expense	<u>(21,988,710)</u>	<u>(20,179,685)</u>
Net statement of operation impact	<u>\$24,627,125</u>	<u>\$43,662,175</u>
Related to State fiscal year ended June 30, 2018	20,634,108	38,720,374
Related to State fiscal year ended June 30, 2019	<u>3,993,017</u>	<u>4,941,801</u>
	<u>\$24,627,125</u>	<u>\$43,662,175</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 2019 and 2018, the Medical Center received approximately \$11,617,000 and \$9,986,000, respectively, in graduate medical education reimbursement. The Children's Hospital Graduate Medical Education ('CHGME') program provides federal funds to freestanding children's hospitals to aid in maintaining graduate medical programs that train resident physicians. The program is administered by the Health Care Resource Service Administration, a branch of the U.S. Department of Health and Human Services. The amount of future graduate medical education reimbursement funding is uncertain.

### Grants and Contributions

Unrestricted contributions are included in nonoperating income when received. Unrestricted pledges of amounts to be received in future periods are recorded as net assets with donor restrictions and reflected as changes in net assets without donor restrictions when received. Grants and contributions restricted for a specific operating purpose are recorded as net assets with donor restrictions 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 net assets with donor

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restrictions 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. As of August 31, 2019 and 2018, the Medical Center's interests in these trustee-held funds at fair value totaled approximately \$30,914,000 and \$31,229,000, respectively, and are included in net assets with donor restrictions.

#### **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, fundraising expense, gain/(loss) on disposal of fixed assets and other miscellaneous nonoperating income and expenses.

#### **Changes in Net Assets**

Net asset without donor restrictions changes include the net activity of the statement of operation as well as the release from restriction for purchase and construction of property and equipment and other than net periodic retirement plan expense changes.

Net asset with donor restrictions changes include receipts of contributions restricted by time or purpose and restricted funds, grants, investment returns, pledge receivable write-offs and change in the fair value of perpetual trusts. Also included are releases of philanthropic or grant funds for use in program services to cover expenses on the statement of operation.

#### **Reclassification**

Certain 2018 amounts have been reclassified to conform to the 2019 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 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.

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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 2019 and 2018 are as follows:

	2019	2018
Excess of allocated cost over reimbursement for services provided to Medicaid patients	\$144,890,805	\$149,344,444
Net benefit under the Illinois Hospital Assessment Program	<u>(24,627,125)</u>	<u>(43,662,175)</u>
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients, net of benefit under the Illinois Hospital Assessment Program	120,263,680	105,682,269
Estimated costs and expenses incurred to provide charity care	<u>4,685,225</u>	<u>2,978,252</u>
Unreimbursed cost of charity care	124,948,905	108,660,521
Cost of patient bad debts	5,750,909	4,704,937
Funds allocated to research from net assets without donor restrictions	11,675,334	11,602,455
Resident and fellows expense	23,738,834	22,411,432
Community clinic support	3,283,027	3,283,023
Child advocacy programs	3,828,777	4,890,711
Family support and interpretation services	<u>8,592,018</u>	<u>8,683,507</u>
Total cost of unreimbursed charity care and community benefit programs	<u>\$181,817,804</u>	<u>\$164,236,586</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.

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**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, 2019 and 2018, investments consisted of the following, which includes the current portion of the self-insurance trust of \$9,800,000 and \$15,000,000, respectively for both years:

	<b>2019</b>	<b>2018</b>
Short-term investments	\$33,537,114	\$69,990,009
Common stock/mutual funds and common collective trusts	519,241,340	552,862,336
Alternative investments	528,946,875	516,521,881
U.S. Government and agency securities	142,219,898	109,984,471
Corporate and municipal bonds	153,180,727	183,538,174
Total investments	<u>\$1,377,125,954</u>	<u>\$1,432,896,871</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. 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, private credit 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 and private credit is committed under contract to periodically advance additional funding as capital calls are exercised. See Note 15.

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.

All Medical Center investments are invested with external managers.

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The Medical Center pools its investments without donor restrictions, board-designated and donor-restricted investments. As of August 31, 2019 and 2018, donor-restricted and investments without donor restrictions are as follows:

	<b>2019</b>	<b>2018</b>
<b>Donor-restricted investments and other assets limited as to use</b>		
Endowments	\$166,086,007	\$156,549,272
Specific purpose	224,498,837	239,311,602
Self-insurance trust	104,280,124	91,790,669
Interest in trustee-held funds	30,914,388	31,229,405
Interest in MCC and CIN	50,823	433,530
Total investments with donor restrictions	525,830,179	519,314,478
<b>Investments without donor restrictions</b>		
Undesignated and board-designated investments	851,295,775	913,582,393
Total investments without donor restrictions	851,295,775	913,582,393
Total investments	\$1,377,125,954	\$1,432,896,871

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, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
<b>Unrestricted investment return</b>		
Interest and dividend income	\$15,761,942	\$14,961,665
Realized gains on sales of investments	39,059,894	39,280,763
Unrealized (losses)/gains on investments	(44,252,542)	21,416,938
Total unrestricted investment return	\$10,569,294	\$75,659,366
<b>Reported as</b>		
Board-designated endowment income	\$12,061,946	\$11,244,665
Other operating investment return	3,699,996	3,717,000
Nonoperating investment return (losses)/gains	(5,192,648)	60,697,701
Total unrestricted investment return	10,569,294	75,659,366
<b>Donor restricted investment return</b>		
Interest and dividend income	2,427,357	2,136,104
Net realized and unrealized (losses)/gains on investments	89,769	9,442,686
Total with donor restricted investment return	2,517,126	11,578,790
Total investment return	\$13,086,420	\$87,238,156

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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 trusts. Short-term investments and U.S. Government and agency securities; corporate and municipal bonds; and common collective trusts have daily redemption terms and no restrictions. Common stock, common collective trusts 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 \$658,000 and \$787,000 of this type of investment are in liquidating funds for fiscal 2019 and 2018, 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, 2019, by caption, including the current portion of the self-insurance trust of \$9,800,000, by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Investments Measured at NAV or Equivalent	Total
<b>Assets</b>					
Investments					
Short-term investments	\$ 17,672,128	\$ 26	\$-	\$15,864,961	\$33,537,114
Common stock/collective trust and mutual funds	450,243,758	282,595	-	68,664,163	519,190,517
Alternative investments	-	-	1,463,008	527,483,867	528,946,875
U.S. Government and agency securities	-	142,219,897	-	-	142,219,897
Corporate and municipal bonds	43,222,200	109,958,526	-	-	153,180,726
Total assets at fair value	\$ 511,138,086	\$252,461,044	\$1,463,008	\$612,012,992	\$1,377,075,129

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
<b>Assets</b>					
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	40,678,174	142,860,001	-	-	183,538,175
Total assets at fair value	\$572,909,619	\$253,274,556	\$ 1,335,136	\$604,944,030	\$1,432,463,341

The tables above do not include the Medical Center's interest in MCC and CIN of \$50,800 and \$434,000 as of August 31, 2019 and 2018 respectively.

Investments measured at fair value using net assets value ('NAV') 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, 2019 and 2018 balance sheet amounts for financial instruments classified by the Medical Center within Level 3 of the fair value hierarchy.

	<b>Level 3 Assets Alternative Investments</b>	
	<b>2019</b>	<b>2018</b>
<b>Balances at beginning of year</b>	\$1,335,136	\$632,083
Total net unrealized gain	41,389	19,595
Purchases	86,483	683,458
<b>Balances at end of year</b>	<b>\$1,463,008</b>	<b>\$1,335,136</b>

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 net assets with donor restrictions, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Where the Board designates unrestricted funds to function as endowments they are classified as net assets without donor restriction.

The Medical Center had the following board-designated without donor restriction and donor-restricted endowment balances during the year ended August 31, 2019 delineated by net asset class:

	<b>Board Designated Endowment funds</b>	<b>Donor-Restricted Endowment funds</b>	<b>Total</b>
<b>Endowment net assets at beginning of year</b>	<u>\$179,993,997</u>	<u>\$271,217,044</u>	<u>\$451,211,042</u>
Investment return			
Investment income	-	2,427,357	2,427,357
Realized and unrealized loss	-	(582,736)	(582,736)
Total investment return	-	1,844,621	1,844,621
Contributions	-	13,038,192	13,038,192
Spend rate allocation	7,034,215	-	7,034,215
Appropriation of endowment assets for expenditure	(6,742,929)	(8,165,023)	(14,907,952)
Other	(573,524)	58,404	(515,120)
<b>Endowment net assets at end of year</b>	<u>\$179,711,758</u>	<u>\$277,993,239</u>	<u>\$451,704,997</u>

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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:

	<b>Board Designated Endowment funds</b>	<b>Donor-Restricted Endowment funds</b>	<b>Total</b>
<b>Endowment net assets at beginning of year</b>	\$180,458,629	\$251,675,854	\$432,134,483
Investment return			
Investment income	-	2,136,104	2,136,104
Realized and unrealized gain	-	8,406,166	8,406,166
Total investment return	-	10,542,270	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)
<b>Endowment net assets at end of year</b>	<b>\$179,993,997</b>	<b>\$271,217,044</b>	<b>\$451,211,042</b>

Description, purpose and appropriations of board designated net assets without donor-imposed restrictions as of years ended August 31, 2019 and 2018

	<b>2019</b>	<b>2018</b>
Appropriations for Research	\$1,223,813	\$1,171,106
Appropriations for Pediatric Programs	6,092,641	4,640,565
	<u>\$7,316,454</u>	<u>\$5,811,672</u>

Description of Amounts Classified as Net Assets with donor restrictions (Endowments Only) during the year ended August 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Restricted for Research	\$70,792,351	\$72,253,935
Restricted for Pediatric Programs	207,200,888	198,963,110
	<u>\$277,993,239</u>	<u>\$271,217,045</u>

**Underwater Endowment Funds**

From time to time, the fair value of net assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration. Such deficiencies generally result from unfavorable market fluctuations that occurred shortly after the investment of new donor restricted contributions to the endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. As of August 31, 2019, \$270,000 in deficiencies were reported. No deficiencies of this nature in net assets without restriction or in net assets with restriction was reported as of August 31, 2018.

**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

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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 2019 and 2018 was 4%. Management and the Board have determined that excess investment return may be spent, consistent with the donor’s intention, to support the 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 net assets with donor restriction are restricted for research and programs. Substantially all net assets released from restrictions in fiscal 2019 and 2018 were related to expenses incurred for research and programs.

**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, 2019 and 2018, was as follows:

	<b>2019</b>	<b>2018</b>
Managed Care	44%	52%
Illinois Medicaid	22	20
Medicaid Managed Care	24	18
Patient Self-Pay	6	4
Other	4	6
	<u>100%</u>	<u>100%</u>

Medicaid and Medicaid Managed Care has increased from 38% at August 31, 2018 to 46% at August 31, 2019. The increase is primarily due to payments received in fiscal 2018 on old outstanding receivables from Medicaid and Medicaid Managed Care payors.

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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, 2019 and 2018 is as follows:

	2019	2018
Managed Care	46%	47%
Illinois Medicaid	19	20
Medicaid Managed Care	31	30
Patient Self Pay	3	1
Other	1	2
	<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.

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 three years to be vested in the Hospital match.

The Medical Center's matching expense under both defined contribution plans totaled \$31,005,000 and \$24,312,000 in fiscal 2019 and 2018, 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

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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 \$207,000 and \$645,000 were recognized which represented a portion of the previously unrecognized losses of the plan as of August 31, 2019 and 2018, 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 five years or attainment of age 62.

Effective January 1, 2019, LCSF received a transfer of the cash balance defined benefit retirement plan from Children's Surgical Foundation as a result of the affiliation agreement. The cash balance plan was established effective January 1, 2017. Participants are 100 percent vested after three years of service. Interest credit of 4 percent, compounded annually, based on 10 percent of the participant's compensation are credited to each participants account.

Effective January 1, 2019, LCPAA acquired a new cash balance defined benefit retirement plan. Principal credits are ranging from 1.5 percent to 10 percent of annual compensation depending on the years of service and credited to each participants account. Plan interest credit is stated at 5 percent. Eligibility is based on completion of two years of service. However, this requirement is waived for participants employed on January 1, 2019.

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

	DB SERP		VGP	
	2019	2018	2019	2018
Service cost, benefits earned during the year	\$149,153	\$184,230	\$ -	\$ -
Interest on projected benefit obligation	210,251	154,486	7,189,244	6,731,630
Expected return on assets	-	-	(10,979,606)	(11,982,442)
Amortization of actuarial loss	654,845	976,911	846,021	857,655
Amortization of prior service cost	33,790	88,333	109,660	109,660
Pension Settlement	206,928	644,675	-	-
Total pension related expense	<u>\$1,254,967</u>	<u>\$2,048,635</u>	<u>\$(2,834,681)</u>	<u>\$(4,283,497)</u>

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Pension expense for the LCSF and LCPAA cash balance pension plans as determined by an independent actuary, includes the following components:

	<u>LCSF</u>	<u>LCPAA</u>
	<b>2019</b>	<b>2019</b>
Service cost, benefits earned during the year	\$3,758,988	\$304,676
Interest on projected benefit obligation	282,492	-
Expected return on assets	(111,341)	-
Amortization of actuarial loss	468,182	-
Amortization of prior service cost	-	-
Pension Settlement	-	-
Total pension related expense	<u>\$4,398,321</u>	<u>\$304,676</u>

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

	<u>DB SERP</u>		<u>DC SERP</u>		<u>VGP</u>	
	2019	2018	2019	2018	2019	2018
<b>Funded status at end of year</b>						
Projected benefit obligation	\$(7,043,607)	\$(6,666,062)	\$(1,863,569)	\$(1,000,586)	\$(195,438,093)	\$(179,024,088)
Plan assets at fair market value	-	-	-	-	195,580,004	174,673,684
Deficiency of plan assets over projected benefit obligation	<u>\$(7,043,607)</u>	<u>\$(6,666,062)</u>	<u>\$(1,863,569)</u>	<u>\$(1,000,586)</u>	<u>\$ 141,911</u>	<u>\$( 4,350,404)</u>
<b>Amounts recognized in the consolidated balance sheet consist of</b>						
Current liability	\$(1,470,303)	\$(493,644)	\$-	\$-	\$-	\$-
Noncurrent Assets (liability)	<u>(5,573,304)</u>	<u>(6,172,418)</u>	<u>(1,863,569)</u>	<u>(1,000,586)</u>	<u>141,911</u>	<u>(4,350,404)</u>
	<u>\$(7,043,607)</u>	<u>\$(6,666,062)</u>	<u>\$(1,863,569)</u>	<u>\$(1,000,586)</u>	<u>\$141,911</u>	<u>\$( 4,350,404)</u>

The funded status of the LCSF and LCPAA cash balance plans at the end of the year was as follows:

	<u>LCSF</u>	<u>LCPAA</u>
	<b>2019</b>	<b>2019</b>
<b>Funded status at end of year</b>		
Projected benefit obligation	\$(12,833,162)	\$(304,676)
Plan assets at fair market value	3,968,091	-
Deficiency of plan assets over projected benefit obligation	<u>\$(8,865,071)</u>	<u>\$(304,676)</u>
<b>Amounts recognized in the consolidated balance sheet consist of</b>		
Current liability	\$-	\$-
Noncurrent liability	<u>(8,865,071)</u>	<u>(304,676)</u>
	<u>\$(8,865,071)</u>	<u>\$( 304,676)</u>

All previously unrecognized actuarial gains and losses and prior service costs are reflected in the consolidated balance sheets. An estimate of \$2,391,000 and \$2,033,000 of this amount is included as a component of pension expense in fiscal 2019 and 2018, respectively.

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The DB SERP and VGP amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in 2020 are as follows:

	<u>DB SERP</u>	<u>VGP</u>
Actuarial loss	\$531,093	\$778,057
Prior service cost	-	109,660
Transition (asset) or obligation	-	-
Total	<u>\$531,093</u>	<u>\$887,717</u>

The LCSF cash balance plan's amount in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in 2020 are as follows:

	<u>LCSF</u>
Actuarial loss	\$494,883
Prior service cost	-
Transition (asset) or obligation	-
Total	<u>\$494,883</u>

The change in the projected benefit obligation during fiscal 2019 and 2018 is summarized as follows:

	<u>DB SERP</u>		<u>VGP</u>	
	2019	2018	2019	2018
<b>Projected benefit obligation at beginning of measurement year</b>	\$6,666,062	\$7,488,343	\$179,024,088	\$87,306,430
Service cost	149,153	184,230	-	-
Interest cost	210,251	154,486	7,189,244	6,731,630
Actuarial loss (gain)	515,750	151,171	16,206,673	(9,177,486)
Benefits paid	(497,609)	(1,312,168)	(6,981,912)	(5,836,486)
<b>Projected benefit obligation at end of measurement year</b>	<u>\$7,043,607</u>	<u>\$6,666,062</u>	<u>\$195,438,093</u>	<u>\$179,024,088</u>

The projected benefit obligation for the VGP was \$195,438,000 and \$179,024,000 at August 31, 2019 and 2018, respectively. The accumulated benefit obligation for the DB SERP plan was \$6,153,000 and \$5,604,000 at August 31, 2019 and 2018, respectively.

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The change in the projected benefit obligation during fiscal 2019 is summarized as follows:

	<u>LCSF</u> <u>2019</u>	<u>LCPAA</u> <u>2019</u>
<b>Projected benefit obligation at beginning of measurement year</b>	\$7,558,847	\$-
Service cost	3,758,988	304,676
Interest cost	282,492	-
Actuarial loss (gain)	1,244,023	-
Benefits paid	(11,187)	-
<b>Projected benefit obligation at end of measurement year</b>	<u>\$12,833,162</u>	<u>\$ 304,676</u>

The benefit obligation for the LCSF cash balance plan was \$12,833,000 as of August 31, 2019. The projected benefit obligation for the LCPAA cash balance plan was \$305,000 as of August 31, 2019.

The VGP change in plan assets during fiscal 2019 and 2018 is summarized as follows:

	<u>VGP</u>	
	<u>2019</u>	<u>2018</u>
<b>Plan assets, at fair value at beginning of measurement year</b>	\$174,673,684	\$176,505,795
Actual return on plan assets	27,888,232	4,004,375
Employer contributions	-	-
Benefits paid	(6,981,912)	(5,836,486)
<b>Plan assets, at fair value at end of measurement year</b>	<u>\$195,580,004</u>	<u>\$174,673,684</u>

The LCSF change in plan assets during fiscal 2019 and 2018 is summarized as follows:

	<u>LCSF</u> <u>2019</u>
<b>Plan assets, at fair value at beginning of measurement year</b>	
Actual return on plan assets	\$256,725
Employer contributions	3,722,553
Benefits paid	(11,187)
<b>Plan assets, at fair value at end of measurement year</b>	<u>\$3,968,091</u>

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The following table presents the VGP plan investments carried at fair value as of August 31, 2019, by caption, by the valuation hierarchy defined in Note 6:

	Level 1	Level 2	Level 3	Investments Measured at NAV or Equivalent	Total
<b>Assets</b>					
Investments					
Short-term investments	\$8,755	\$-	\$-	\$3,428,000	\$3,436,755
Common stock	31,257	-	-	46,094,341	46,125,599
Other fixed income	24,544	-	-	145,993,106	146,017,650
Total assets at fair value	<u>\$64,556</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ 195,515,448</u>	<u>\$195,580,004</u>

The following table presents the VGP 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 Measured at NAV or Equivalent	Total
<b>Assets</b>					
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	-	-	-	131,261,173	131,261,173
Total assets at fair value	<u>\$83,232</u>	<u>\$-</u>	<u>\$-</u>	<u>\$74,590,452</u>	<u>\$174,673,684</u>

The following table presents the LCSF cash balance plan investments carried at fair value as of August 31, 2019, by caption, by the valuation hierarchy defined in Note 6:

	Level 1	Level 2	Level 3	Investments Measured at NAV or Equivalent	Total
<b>Assets</b>					
Investments					
Short-term investments	\$2,860,624	\$-	\$-	\$54,370	\$2,914,994
Common stock	1,053,097	-	-	-	1,053,097
Total assets at fair value	<u>\$3,913,721</u>	<u>\$-</u>	<u>\$-</u>	<u>\$54,370</u>	<u>\$3,968,091</u>

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

The Medical Center's VGP pension plan weighted-average asset allocation at August 31, 2019 and 2018, by asset category is as follows:

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	2019	2018
<b>Asset category</b>		
Return-seeking assets	21%	23%
Liability-hedging assets	79	77
	100%	100%

The Medical Center's VGP 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	LCSF	LCPAA	Total
<b>Years Ending August 31,</b>						
2020	\$1,470,303	\$100,000	\$11,938,552	\$-	\$-	\$13,508,855
2021	3,845,132	200,000	10,678,733	-	-	14,723,865
2022	971,138	1,300,000	9,796,940	6,529,639	-	18,597,717
2023	1,186,928	1,000,000	9,901,143	59,031	-	12,147,102
2024	946,915	600,000	9,849,118	525,688	-	11,921,721
2025-2029	-	3,300,000	46,422,511	9,737,294	617,739	60,077,544
	\$8,420,416	\$6,500,000	\$98,586,997	\$16,851,652	\$617,739	\$130,976,804

Weighted-average assumptions used to determine benefit obligations at August 31, 2019 and 2018 are as follows:

	DB SERP		DC SERP		VGP	
	2019	2018	2019	2018	2019	2018
Discount rate	2.0%	3.2%	-	-	3.2%	4.2%
Rate of compensation increase	4.0	4.0	4.0	4.0	-	-
	LCSF		LCPAA			
	2019	2018	2019			
Discount rate	2.7%	3.8%	3.0%			
Rate of compensation increase	-	-	3.0			

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Weighted-average assumptions used to determine net periodic pension benefit cost in fiscal 2019 and 2018 are as follows:

	<b>DB SERP</b>		<b>DC SERP</b>		<b>VGP</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Discount rate	3.2%	2.2%	-	-	4.2%	3.7%
Expected return on plan assets	-	-	6.0	6.0	6.5	7.0
Rate of compensation increase	4.0	4.0	4.0	4.0	-	-
	<b>LCSF</b>		<b>LCPAA</b>			
	<b>2019</b>	<b>2018</b>	<b>2019</b>			
Discount rate	2.7%	3.8%	3.0%			
Expected return on plan assets	6.0	6.0	5.0			
Rate of compensation increase	-	-	3.0			

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 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.

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 in extinguishment of the Series 2008A Bonds as a nonoperating item in the consolidated statements of operation and change in net asset as of August 31, 2018. 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. 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 2018 and 2019 are the only outstanding bonds of the Medical Center.

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The chart below outlines debt as of August 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
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 \$13,695,000 in August 2037.	\$130,365,000	\$135,480,000
Illinois Finance Authority taxable revenue bonds, Series 2018, fixed interest rate ranging from 3.50% to 3.95%, 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>223,550,000</u>
Total debt outstanding	353,915,000	359,030,000
Unamortized premium/(discount)	11,102,963	12,170,459
Less: Debt issuance costs	<u>(3,617,395)</u>	<u>(3,879,781)</u>
Long-term debt	<u>\$361,400,568</u>	<u>\$ 367,320,678</u>
	<b>2019</b>	<b>2018</b>
Current portion	\$5,375,000	\$5,115,000
Long-term portion	<u>348,540,000</u>	<u>353,915,000</u>
Total principal outstanding at par value	<u>\$353,915,000</u>	<u>\$359,030,000</u>

The estimated fair value of the Medical Center’s total debt outstanding was approximately \$402,389,000 as of August 31, 2019. 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, 2019, are as follows:

<b>Years Ending August 31,</b>	
2020	\$5,375,000
2021	5,640,000
2022	5,920,000
2023	6,220,000
2024	6,530,000
Thereafter	<u>324,230,000</u>
	<u>\$353,915,000</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, 2019 and 2018.

As of August 31, 2019, 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 2019 or 2018. One outstanding letter of credit supporting the construction of the hospital in Streeterville of \$597,000 reduces the available lines of credit.

**Children’s Hospital of Chicago Medical Center and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**August 31, 2019 and 2018**

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**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 \$22,419,000 and \$19,866,000 in 2019 and 2018, 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, 2019, are as follows:

<b>Years Ending August 31,</b>	
2020	\$16,120,000
2021	17,289,000
2022	18,007,000
2023	15,575,000
2024	14,651,000
Thereafter	94,377,000
	<u>\$176,019,000</u>

**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 LCPC, LCSF, and LCPAA. More than 800 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 \$27,100,000 and \$32,000,000 in expense for fiscal 2019 and 2018, respectively, for self-insured professional and general liability risk. The Medical Center’s self-insurance liability has been discounted at 5% in fiscal 2019 and 2018. The effect of discounting the value of estimated liabilities was approximately \$26,955,000 and \$24,980,000 at August 31, 2019 and 2018, respectively. Further, the Medical Center recorded an estimated liability of \$123,394,000 and \$113,954,000 at August 31, 2019 and 2018, 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, including a swing option coverage to manage potential losses of the self-insured portion. 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, 2019 and 2018, premiums ceded to reinsurers were \$2,851,000 and \$1,984,000, respectively, and reinsurance recoveries on

**Children's Hospital of Chicago Medical Center and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**August 31, 2019 and 2018**

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unpaid losses on an undiscounted basis, were \$24,619,000 and \$27,149,000, 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, amounts due from the physician practice groups totaled approximately \$5,363,000, respectively, a portion of which is included in other current assets.

The Medical Center paid approximately \$1,667,000 and \$4,711,000 fiscal 2019 and 2018, 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 \$4,465,000 and \$11,784,000 in fiscal 2019 and 2018, 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.

**14. Functional and natural expense classification**

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 by both functional and natural classification as follows:

**Functional expenses:**

	<b>2019</b>	<b>2018</b>
Patient care services	\$913,152,550	\$780,983,753
General and administrative	188,226,840	146,160,101
Research and programs	85,682,071	64,365,125
Fundraising	19,723,863	17,502,176
Medicaid Assessment Program Tax (Note 3)	21,985,937	20,179,685
	<u>\$1,228,771,261</u>	<u>\$1,029,190,840</u>

**Natural expense classification:**

	<b>2019</b>	<b>2018</b>
Expenditures charged to net assets with donor restrictions	\$107,848,196	\$74,950,023
Expenditures charged to net assets without donor restrictions	<u>1,120,923,065</u>	<u>954,240,817</u>
Total expenditure	<u>\$1,228,771,261</u>	<u>\$1,029,190,840</u>

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

## Notes to Consolidated Financial Statements

### August 31, 2019 and 2018

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#### 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.

##### **Property, Plant and Equipment**

During fiscal 2016, the Medical Center entered into a \$160,000,000 commitment to contribute to the total cost of a new research tower being built in conjunction with Northwestern University. The committed was revised and increased by \$20,000,000 during fiscal year 2018 for a total commitment of \$180,000,000. The Medical Center has the title to four floors and a proration of the public space. The building was completed and commissioned in June 2019. The total expenditure of \$179,251,000 has been included in property plant and equipment and included in the consolidated balance sheets as of August 31, 2019.

The Medical Center obtained a certificate of need for the design and construction of additional beds in the main hospital and for an Ambulatory Surgery Treatment Center in the northern suburbs. The construction and occupancy of the additional beds and ambulatory surgery center was completed during fiscal year 2019. In addition, construction in progress of an additional 24 beds for hematology/oncology is near completion.

##### **Investments**

The Medical Center has contractual commitments totaling \$204,300,000 with its private equity investment funds. As of August 31, 2019, the Medical Center's remaining capital commitments are \$126,673,000. 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

**Children's Hospital of Chicago Medical Center and Affiliated  
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**Notes to Consolidated Financial Statements**  
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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 of \$416,000 was recognized as of August 31, 2019 and 2018, respectively, which was 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 and nothing that requires recognition or disclosure was noted.

## **Supplemental Information**

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

## Consolidating Balance Sheet

### August 31, 2019

	Ann & Robert H. Lurie Children's Hospital of Chicago	Lurie Children's Hospital of Chicago Foundation	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	Health Partners Care Coordination, LLC.	Lurie Children's Primary Care, LLC	Lurie Children's Pediatric Anesthesia Associates	Lurie Children's Surgical Foundation, Inc.	Faculty Practice Plan	Eliminating Entries	Total
<b>Assets</b>																
<b>CURRENT ASSETS</b>																
Cash and cash equivalents	\$ 27,860,792	\$ -	\$ 27,860,792	\$ -	\$ -	\$ 4,669,321	\$ -	\$ -	\$ 216,698	\$ -	\$ -	\$ -	\$ -	\$ 2,187,298	\$ -	\$ 34,934,109
Current portion of self-insurance trust	9,800,000	-	9,800,000	-	-	-	-	-	-	-	-	-	-	-	-	9,800,000
Accounts receivable, net of allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
for uncollectible accounts of \$25,497,000	220,069,388	-	220,069,388	-	14,523,141	4,004,603	492,318	-	-	87,627	830,372	5,569,702	11,745,711	-	-	257,322,862
Other current assets	46,218,099	680,675	46,898,774	236,448	7,162,309	618,779	45,276	76,025	28,014,818	-	476,300	179,183	4,155,177	1,203,797	-	89,066,886
Total current assets	303,948,279	680,675	304,628,954	236,448	21,685,450	9,292,703	537,594	76,025	28,231,516	87,627	1,306,672	5,748,885	15,900,888	3,391,095	-	391,123,857
Investment	1,354,830,172	-	1,354,830,172	-	-	-	-	152,122	-	-	-	-	-	12,895,782	(552,122)	1,367,325,954
Property and equipment, at cost	1,464,056,342	1,614,953	1,465,671,295	209,428,485	-	-	2,426,833	-	-	-	3,678,185	-	-	-	-	1,681,204,798
Less: accumulated depreciation	(565,743,345)	(1,614,953)	(567,358,298)	(19,097,944)	-	-	(624,706)	-	-	-	(1,984,572)	-	-	-	-	(589,065,520)
Total property and equipment, net	898,312,997	-	898,312,997	190,330,541	-	-	1,802,127	-	-	-	1,693,613	-	-	-	-	1,092,139,278
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pledges receivable restricted by donors, net	65,282,971	-	65,282,971	-	-	-	-	-	-	-	-	-	-	-	-	65,282,971
Goodwill	-	-	-	-	-	-	-	-	-	-	1,417,706	-	-	-	-	1,417,706
Other assets	17,246,530	-	17,246,530	-	-	-	-	-	-	-	-	-	-	-	-	17,246,530
Total other assets	82,529,501	-	82,529,501	-	-	-	-	-	-	-	1,417,706	-	-	-	-	83,947,207
Total assets	\$ 2,639,620,949	\$ 680,675	\$ 2,640,301,624	\$ 190,566,989	\$ 21,685,450	\$ 9,292,703	\$ 2,339,721	\$ 228,147	\$ 28,231,516	\$ 87,627	\$ 4,417,991	\$ 5,748,885	\$ 15,900,888	\$ 16,286,877	\$ (552,122)	\$ 2,934,536,296
<b>Liabilities and Net Assets</b>																
<b>Current liabilities</b>																
Accounts payable and accrued expenses	\$ 163,587,768	\$ 3,080,906	\$ 166,668,674	\$ 3,911,964	\$ 11,834,704	\$ 3,709,448	\$ 402,050	\$ 3,082	\$ 28,079,394	\$ 9,098	\$ 536,918	\$ 2,659,464	\$ 1,933,067	\$ 6,640,376	\$ -	\$ 226,388,239
Current portion of self-insurance liability	9,800,000	-	9,800,000	-	-	-	-	-	-	-	-	-	-	-	-	9,800,000
Due to third-party payors	29,812,220	-	29,812,220	-	2,561,008	253,992	-	-	-	-	-	-	-	-	-	32,627,220
Current portion of long term debt	5,375,000	-	5,375,000	-	-	-	-	-	-	-	-	-	-	-	-	5,375,000
Total current liabilities	208,574,988	3,080,906	211,655,894	3,911,964	14,395,712	3,963,440	402,050	3,082	28,079,394	9,098	536,918	2,659,464	1,933,067	6,640,376	-	274,190,459
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Self-insurance liability	113,593,663	-	113,593,663	-	-	-	-	-	-	-	-	-	-	-	-	113,593,663
Other noncurrent liabilities	53,324,606	-	53,324,606	-	-	-	483,241	-	-	-	99,180	-	8,865,071	-	-	62,772,098
Total other liabilities	166,918,269	-	166,918,269	-	-	-	483,241	-	-	-	99,180	-	8,865,071	-	-	176,365,761
Long-term debt	356,025,568	-	356,025,568	-	-	-	-	-	-	-	-	-	-	-	-	356,025,568
Total liabilities	731,518,825	3,080,906	734,599,731	3,911,964	14,395,712	3,963,440	885,291	3,082	28,079,394	9,098	636,098	2,659,464	10,798,138	6,640,376	-	806,581,788
Stockholder's equity	-	-	-	-	-	-	-	-	120,000	-	-	-	-	-	(120,000)	-
Common and preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-	-	-	32,122	-	-	-	-	-	(32,122)	-
Total stockholder's equity	-	-	-	-	-	-	-	-	152,122	-	-	-	-	-	(152,122)	-
Net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets without donor restrictions	1,427,243,292	(2,400,231)	1,424,843,061	186,655,025	7,289,738	5,329,263	1,454,430	225,065	-	78,529	3,781,893	3,089,421	5,102,750	9,646,501	(400,000)	1,647,095,676
Net assets with donor restrictions	480,858,832	-	480,858,832	-	-	-	-	-	-	-	-	-	-	-	-	480,858,832
Total net assets	1,908,102,124	(2,400,231)	1,905,701,893	186,655,025	7,289,738	5,329,263	1,454,430	225,065	-	78,529	3,781,893	3,089,421	5,102,750	9,646,501	(400,000)	2,127,954,508
Total liabilities and net assets	\$ 2,639,620,949	\$ 680,675	\$ 2,640,301,624	\$ 190,566,989	\$ 21,685,450	\$ 9,292,703	\$ 2,339,721	\$ 228,147	\$ 28,231,516	\$ 87,627	\$ 4,417,991	\$ 5,748,885	\$ 15,900,888	\$ 16,286,877	\$ (552,122)	\$ 2,934,536,296

**Children's Hospital of Chicago Medical Center and Affiliated Corporations**  
**Consolidating Balance Sheet**  
**August 31, 2018**

	Ann &														
	Ann & Robert H. Lurie Children's Hospital of Chicago	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 Coalition	Lurie Children's Primary Care	Eliminating Entries	Total	
<b>Assets</b>															
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	29,141,405	538,174	437,133	-	84,014,227	
Total current assets	215,262,409	663,535	-	215,925,944	286,018	19,803,724	9,218,846	465,691	76,025	29,355,417	543,474	1,002,587	-	276,677,726	
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	511,124,909	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															
Pledges receivable restricted by donors, net	58,694,494	-	-	58,694,494	-	-	-	-	-	-	-	-	-	58,694,494	
Goodwill	17,555,781	-	-	17,555,781	-	-	-	-	-	-	-	1,417,706	-	1,417,706	
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	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	\$ 29,355,417	\$ 543,474	\$ 4,520,702	\$ (120,000)	\$2,833,403,115	
<b>Liabilities and Net Assets</b>															
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	\$ -	\$ 29,205,540	\$ 8,539	\$ 848,231	\$ -	\$ 197,736,496	
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	-	29,205,540	8,539	848,231	-	260,657,453	
Other liabilities															
Self-insurance liability	98,954,218	-	-	98,954,218	-	-	-	-	-	-	-	-	-	98,954,218	
Other noncurrent liabilities	40,632,109	-	-	40,632,109	-	-	-	296,769	-	-	-	87,993	-	41,016,871	
Total other 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	-	29,205,540	8,539	936,224	-	762,834,220	
Stockholder's equity															
Common stock	-	-	-	-	-	-	-	-	-	120,000	-	-	(120,000)	-	
Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Retained earnings	-	-	-	-	-	-	-	-	-	29,877	-	-	(29,877)	-	
Total stockholder's equity	-	-	-	-	-	-	-	-	-	149,877	-	-	(149,877)	-	
Net assets															
Net assets without donor restrictions	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	
Net assets with donor restrictions	480,515,422	-	-	480,515,422	-	-	-	-	-	-	-	-	-	480,515,422	
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	\$ 29,355,417	\$ 543,474	\$ 4,520,702	\$ (120,000)	\$2,833,403,115	

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

## Consolidating Statement of Operation and Change in Net Assets Without Donor Restrictions

### Year Ended August 31, 2019

	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, LLC.	Lurie Children's Primary Care, LLC	Lurie Children's Pediatric Anesthesia Associates	Lurie Children's Surgical Foundation, Inc.	Faculty Practice Plan	Eliminating Entries	Total
<b>Operating revenue</b>																	
Patient service revenue, net of contractual allowances and discounts	\$ 923,806,592	\$ -	\$ -	\$ 923,806,592	\$ -	\$ 109,513,706	\$ 18,368,302	\$ 3,062,270	\$ -	\$ -	\$ -	\$ 18,507,791	\$ 12,414,419	\$ 28,924,189	\$ -	\$ (241,346)	\$ 1,114,355,923
Provision for doubtful accounts	6,581,115	-	-	6,581,115	-	4,104,583	367,738	-	-	-	-	150,701	-	-	-	-	11,204,137
Net patient service revenue	917,225,477	-	-	917,225,477	-	105,409,123	18,000,564	3,062,270	-	-	-	18,357,090	12,414,419	28,924,189	-	(241,346)	1,103,151,786
<b>Net assets released from restrictions</b>																	
Contributions and philanthropy used for program purposes	48,855,079	-	-	48,855,079	15,059,374	2,421,305	217,829	90,625	-	-	217,050	-	82,169	303,533	-	(18,391,885)	48,855,079
Grants and other restricted income used for program purposes	50,655,075	-	-	50,655,075	11,845,051	5,443,028	393,525	-	-	-	-	-	-	198,451	-	(17,880,055)	50,655,075
Board-designated endowment income	12,061,946	-	-	12,061,946	-	1,126,537	232,369	-	-	-	-	-	-	-	-	(5,035,613)	8,385,239
Other operating revenue	41,591,819	-	-	41,591,819	330	43,213,055	5,819,382	362,603	-	93,738	530,085	197,977	1,678,682	6,993,474	-	(49,510,098)	71,697,587
Total operating revenue	1,070,389,396	-	-	1,070,389,396	26,904,755	157,613,048	24,663,669	3,515,498	-	93,738	747,135	18,555,067	14,175,270	36,419,647	20,726,540	(91,058,997)	1,282,744,766
<b>Operating expenses</b>																	
Salaries, wages, and employee benefits	505,447,735	12,097,559	(12,097,559)	505,447,735	24,387,782	157,741,358	22,398,358	6,480,421	720,089	-	1,999,739	11,387,329	13,364,877	43,380,616	1,278,649	(53,218,681)	735,368,272
Supplies and services	341,379,705	7,452,494	(7,452,494)	341,379,705	13,463,508	36,750,669	6,189,636	811,965	233,120	92,612	165,785	7,101,199	1,645,322	8,699,910	18,427,509	(37,981,270)	396,979,668
Depreciation	70,229,331	-	-	70,229,331	5,683,276	-	-	97,335	-	-	-	548,563	-	-	-	140,954	76,699,459
Total operating expenses	917,056,771	19,550,053	(19,550,053)	917,056,771	43,534,564	194,492,027	28,587,994	7,389,721	953,209	92,612	2,165,524	19,037,091	15,010,199	52,080,526	19,706,158	(91,058,997)	1,209,047,399
Income (loss) from operations before interest and amortization	153,332,625	(19,550,053)	(19,550,053)	153,332,625	(16,629,809)	(36,878,979)	(3,924,325)	(3,874,223)	(953,209)	1,126	(1,418,389)	(482,024)	(834,929)	(15,660,879)	1,020,382	-	73,697,367
Interest and amortization of financing costs	17,427,116	-	-	17,427,116	-	-	-	-	-	-	-	-	-	-	-	-	17,427,116
Income (loss) from operations	135,905,509	(19,550,053)	(19,550,053)	135,905,509	(16,629,809)	(36,878,979)	(3,924,325)	(3,874,223)	(953,209)	1,126	(1,418,389)	(482,024)	(834,929)	(15,660,879)	1,020,382	-	56,270,251
<b>Nonoperating income (expenses)</b>																	
Investment return gains	(5,796,359)	-	-	(5,796,359)	-	-	-	-	2,245	1,119	-	-	-	-	602,592	(2,245)	(5,192,648)
Unrestricted contributions and bequests	-	21,685,421	-	21,685,421	-	-	-	743,803	-	-	-	-	-	-	-	-	22,429,224
Fund-raising expense	-	-	19,550,053	(19,550,053)	-	-	-	(173,810)	-	-	-	-	-	-	-	-	(19,723,863)
Gain on disposal of fixed assets	1,468,210	-	-	1,468,210	4,933,849	-	-	-	-	-	-	-	-	-	-	-	6,402,059
Other	(9,681,923)	-	-	(9,681,923)	-	-	-	22,697	-	-	-	-	-	-	(100,000)	-	(9,759,226)
Total nonoperating income	(4,010,072)	21,685,421	19,550,053	(11,874,704)	4,933,849	-	-	592,690	2,245	1,119	-	-	-	-	502,592	(2,245)	(5,844,454)
Excess (deficiency) of revenue over expenses	121,895,437	2,135,368	-	124,030,805	(11,695,960)	(36,878,979)	(3,924,325)	(3,281,533)	(950,964)	2,245	(1,418,389)	(482,024)	(834,929)	(15,660,879)	1,522,974	(2,245)	50,425,797
<b>Net assets released from restrictions used for purchases of property and equipment</b>	881,523	-	-	881,523	-	-	-	-	-	-	-	-	-	-	-	-	881,523
Retirement plan related change other than net periodic retirement plan expense	2,054,107	-	-	2,054,107	-	-	-	-	-	-	-	-	-	(5,932,857)	-	-	(3,878,750)
Net assets transferred from newly affiliated organization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,123,527	-	8,123,527
Other	1,884,685	3,816	-	1,888,501	-	-	1,605	29,877	-	-	-	-	-	-	-	(429,877)	1,490,106
Transfers between affiliates (other)	(119,958,076)	(2,047,423)	-	(122,005,499)	44,621,754	36,233,863	4,641,628	3,295,869	950,127	-	961,983	679,439	3,924,350	26,696,486	-	-	-
Increase (decrease) in net assets without donor restrictions	\$ 6,757,676	\$ 91,761	\$ -	\$ 6,849,437	\$ 32,925,794	\$ (645,116)	\$ 718,908	\$ 14,336	\$ 29,040	\$ 2,245	\$ (456,406)	\$ 197,415	\$ 3,089,421	\$ 5,102,750	\$ 9,646,501	\$ (432,122)	\$ 57,042,203

**Children's Hospital of Chicago Medical Center and Affiliated Corporations**  
**Consolidating Statement of Operation and Change in Net Assets Without Donor Restrictions**  
**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
<b>Operating revenue</b>														
Patient service revenue, net of contractual														
allowances and discounts	\$ 27,824,019	\$ -	\$ -	\$ 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	-	65,850	-	-	-	-	(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
<b>Operating expenses</b>														
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)	1,011,688,664
Income (loss) from operations before interest and amortization	132,939,111	(17,305,464)	17,305,464	132,939,111	(11,602,455)	(26,533,470)	(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)	(26,533,470)	(3,127,801)	(1,928,325)	(679,436)	5,101	(1,372,495)	(1,224,368)	-	68,219,352
<b>Nonoperating income (expense), net</b>														
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)	(26,533,470)	(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 net assets without donor restrictions	\$ 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