Children’s Healthcare of Atlanta, Inc. and Affiliates

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2020 and 2019, and
Independent Auditors’ Report

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Children's Healthcare of Atlanta, Inc. and Affiliates
Atlanta, Georgia

We have audited the accompanying consolidated financial statements of Children's Healthcare of Atlanta, Inc. (a Georgia not-for-profit corporation) and Affiliates ("Children's"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Children'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 Children's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's Healthcare of Atlanta, Inc. and Affiliates as of December 31, 2020 and 2019, and the results of their operations, the changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 26, 2021

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND 2019
(In thousands)

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 161,705	$ 102,722
Assets whose use is limited (Note 5)	57,093	57,591
Patient accounts receivable—net	261,755	233,803
Contributions receivable—net	61,210	35,070
Other receivables	31,155	4,832
Supplies and prepaid expenses	49,345	46,534
Total current assets	622,263	480,552
ASSETS WHOSE USE IS LIMITED (Note 5)	6,871,975	6,032,306
OTHER NONCURRENT ASSETS:		
Deposits and other assets	11,333	11,586
Right-of-use lease assets (Note 8)	45,179	53,437
Noncurrent contributions receivable—net	204,729	65,958
Total other noncurrent assets	261,241	130,981
PROPERTY AND EQUIPMENT—Net (Note 1)	1,286,325	1,110,163
BENEFICIAL INTERESTS IN TRUSTS	179,723	171,109
TOTAL	$9,221,527	$7,925,111
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 30,309	$ 35,111
Long-term debt classified as current (Note 7)	57,093	57,591
Current portion of right-of-use lease obligations (Note 8)	10,045	13,205
Current research pledges (Note 1)	35,293	22,370
Accounts payable and other	217,117	178,542
Salaries, related taxes, and benefits	64,812	80,309
Total current liabilities	414,669	387,128
LONG-TERM DEBT—Net of portion classified as current (Note 7)	1,218,529	1,247,653
NONCURRENT RESEARCH PLEDGES (Note 1)	54,150	34,304
RIGHT-OF-USE LEASE OBLIGATIONS (Note 8)	37,226	42,103
OTHER NONCURRENT LIABILITIES	178,979	128,369
Total noncurrent liabilities	1,488,884	1,452,429
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS:		
Without donor restriction	6,448,669	5,439,869
With donor restriction (Note 1)	861,087	636,358
Noncontrolling interests in Surgery Center	8,218	9,327
Total net assets	7,317,974	6,085,554
TOTAL	$9,221,527	$7,925,111

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES AND SUPPORT:						
Net patient service revenue	$1,731,781	$ -	$1,731,781	$1,793,510	$ -	$1,793,510
Provider relief funding (Note 1)	68,293	-	68,293	-	-	-
Other operating revenue	59,551	-	59,551	57,217	-	57,217
Contributions	18,840	239,712	258,552	20,472	117,799	138,271
Investment return designated for operations	25,752	-	25,752	23,675	-	23,675
Net assets released from restriction for operations	52,420	(52,420)	-	59,060	(59,060)	-
Total operating revenues and support	1,956,637	187,292	2,143,929	1,953,934	58,739	2,012,673
OPERATING EXPENSES:						
Salaries and wages	836,390	-	836,390	837,491	-	837,491
Employee benefits	167,419	-	167,419	201,245	-	201,245
Purchased services	218,825	-	218,825	175,679	-	175,679
Supplies	204,983	-	204,983	202,857	-	202,857
Other expenses	96,027	-	96,027	111,713	-	111,713
Interest expense	18,552	-	18,552	23,904	-	23,904
Depreciation	98,379	-	98,379	89,592	-	89,592
Total operating expenses	1,640,575	-	1,640,575	1,642,481	-	1,642,481
OPERATING INCOME	316,062	187,292	503,354	311,453	58,739	370,192
INVESTMENT INCOME (Note 5)	723,163	31,690	754,853	633,170	30,920	664,090
CHANGE IN FAIR VALUE OF INTEREST RATE SWAPS (Notes 1 and 6)	(24,642)	-	(24,642)	(23,235)	-	(23,235)
REVENUE OVER EXPENSES	1,014,583	218,982	1,233,565	921,388	89,659	1,011,047
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(7,148)	-	(7,148)	(10,136)	-	(10,136)
REVENUE OVER EXPENSES ATTRIBUTABLE TO CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES	$1,007,435	$218,982	$1,226,417	$ 911,252	$ 89,659	$1,000,911

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interests	Total
NET ASSETS—December 31, 2018	$4,525,022	$541,517	$ 7,883	$5,074,422
Revenues over expenses	911,252	89,659	10,136	1,011,047
Net assets released from restriction for Hughes Spalding (Notes 1 and 2)	-	(1,890)	-	(1,890)
Net assets released from restriction for property additions and other	3,595	(3,595)	-	-
Distributions to noncontrolling interests in Surgery Center	-	-	(9,994)	(9,994)
Proceeds from sale of noncontrolling interests in Surgery Center	-	-	1,302	1,302
Increase in beneficial interest in trusts	-	10,667	-	10,667
Increase in net assets	914,847	94,841	1,444	1,011,132
NET ASSETS—December 31, 2019	5,439,869	636,358	9,327	6,085,554
Revenues over expenses	1,007,435	218,982	7,148	1,233,565
Net assets released from restriction for Hughes Spalding (Notes 1 and 2)	-	(1,386)	-	(1,386)
Net assets released from restriction for property additions and other	1,365	(1,365)	-	-
Distributions to noncontrolling interests in Surgery Center	-	-	(8,257)	(8,257)
Increase in beneficial interest in trusts	-	8,498	-	8,498
Increase (decrease) in net assets	1,008,800	224,729	(1,109)	1,232,420
NET ASSETS—December 31, 2020	$6,448,669	$861,087	$ 8,218	$7,317,974

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 1,232,420	$ 1,011,132
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	98,379	89,592
Bond issuance cost amortization	782	463
Bond premium amortization	(9,123)	(3,429)
Early extinguishment of debt	-	5,133
Net unrealized gains on investments	(507,919)	(409,072)
Net realized gains on sale of investments	(113,736)	(208,880)
Net change in fair value of interest rate swaps	24,642	23,235
Equity in income of unconsolidated investments	(143,824)	(24,160)
Restricted contributions and other	(239,712)	(117,799)
Distributions to noncontrolling interests in Surgery Center and other	8,257	8,692
Changes in assets and liabilities:		
Patient accounts receivable and other receivables	(54,272)	(25,034)
Supplies and prepaid expenses	(2,811)	(1,444)
Other noncurrent assets	3,915	(238)
Accounts payable and accrued liabilities	39,381	16,509
Other noncurrent liabilities	36,920	(21,544)
Total adjustments	(859,121)	(667,976)
Net cash provided by operating activities	373,299	343,156
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(281,083)	(244,631)
Purchase of assets whose use is limited	(5,486,929)	(6,287,275)
Proceeds from distribution and disposal of assets whose use is limited	5,381,548	5,251,724
Net cash used in investing activities	(386,464)	(1,280,182)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt, net of bond issuance costs	-	1,112,410
Repayments of long-term debt	(26,082)	(1,921)
Retirement of long-term debt	-	(396,147)
Distributions to noncontrolling interests in Surgery Center	(8,257)	(9,994)
Proceeds from sale of noncontrolling interests in Surgery Center	-	1,302
Cash proceeds from restricted contributions and investment income	106,487	103,407
Net cash provided by financing activities	72,148	809,057
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,983	(127,969)
CASH AND CASH EQUIVALENTS—Beginning of year	102,722	230,691
CASH AND CASH EQUIVALENTS—End of year	$ 161,705	$ 102,722

See notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization—Children's Healthcare of Atlanta, Inc. ("Children's") was formed in 1998 when Egleston Children's Health Care System and Scottish Rite Children's Medical Center effectively merged by creating Children's as the controlling company for both organizations.

Today, Children's is a pediatric health care system based in Atlanta, Georgia, organized for the purposes of treating sick children, encouraging and supporting scientific investigation into the medical problems of children, and providing instruction in the diseases and care of children. Children's includes the following organizations:

a. Egleston Children's Hospital at Emory University, Inc. operates as Children's Healthcare of Atlanta at Egleston and provides inpatient and outpatient pediatric health care services.

b. Scottish Rite Children's Medical Center, Inc. operates as Children's Healthcare of Atlanta at Scottish Rite and provides inpatient and outpatient pediatric health care services.

c. Egleston Affiliated Services, Inc. operates as Children's Affiliated Services and provides immediate and urgent pediatric health care services.

d. Egleston Pediatric Group, Inc. operates as Children's Pediatric Group and provides pediatric physician services.

e. Children's Healthcare of Atlanta Foundation, Inc. promotes Children's in the community and raises financial support for Children's through fund-raising activities.

f. Emory-Egleston Children's Heart Center, Inc. operates as Sibley Cardiology and provides pediatric cardiac physician services.

g. The Children's Health Network, LLC is a physician hospital organization.

h. The Children's Care Network is a clinically integrated network.

i. HSOC, Inc. provides management, administrative, and related services to Hughes Spalding Children's Hospital ("Hughes Spalding"), a pediatric hospital wholly owned by Grady Health System, Inc. Pursuant to a management agreement, HSOC, Inc. may be required to provide financial support. HSOC, Inc. may terminate the management agreement with a 60-day notice to Grady Health System, Inc.

j. Marcus Autism Center, Inc. is a provider of outpatient therapy and counseling services for children with autism and other behavioral disorders.

k. Real Estate Enterprises, LLC is a special-purpose entity for real estate transactions.

l. Children's Healthcare of Atlanta Affiliations, LLC is a special-purpose entity for health system affiliation transactions.

m. Pediatric Informatics, LLC is a special-purpose entity for information technology services provided to other health care systems.

n. Children's Healthcare of Atlanta Surgery Center at Meridian Mark Plaza, LLC ("Surgery Center") is a 51% joint venture with physicians to operate an outpatient surgery center.

Summary of Significant Accounting and Reporting Policies—A summary of the significant accounting and reporting policies followed by Children's in the preparation of its consolidated financial statements is presented below:

Principles of Consolidation—The consolidated financial statements include the accounts of Children's and all its wholly owned, majority-owned, and controlled organizations. All material intercompany transactions and account balances have been eliminated in consolidation.

Cash and Cash Equivalents—Cash and cash equivalents include highly liquid instruments with original maturities of three months or less at the date of purchase and are recorded at cost, which approximates market value. Children's invests cash that is not required for immediate operating needs in major financial institutions in amounts that exceed Federal Deposit Insurance Corporation limits.

Assets Whose Use Is Limited—Assets whose use is limited primarily include assets restricted by donors and assets set aside by the board of trustees (the "Board") over which the Board retains control. The Board designated quasi-endowments for academics, behavioral health, and child advocacy, the earnings of which would support these mission-focused programs. The Board may, at its discretion, subsequently use these assets for other purposes.

Investments in marketable equity and other securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Generally, investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenues over expenses as investment income. Investments in nonmarketable securities (which primarily include investments in partnerships and limited liability companies) without readily determinable fair values are accounted for using the equity method of accounting where Children's owns less than 50% of the ownership interest.

Derivative Instruments—Children's occasionally uses derivative financial instruments to manage movements in interest rates. Interest rate swaps are contractual agreements between two parties for the exchange of interest payments on a notional principal amount at agreed-upon fixed or floating rates for defined periods. Children's does not enter into derivative financial instruments for trading purposes. Credit risk related to the derivative financial instruments is considered minimal and is managed by requiring high-credit standards for its counterparties and periodic settlements. Any change in the fair value of these derivative instruments is included in revenues over expenses.

Property and Equipment—Property and equipment are recorded at cost. Children's policy is to capitalize major additions, including interest costs during construction, and to remove retired items from the accounts. Depreciation is provided using the straight-line method over the estimated service lives of the depreciable property and equipment. The depreciable lives applied are generally 16 to 40 years for buildings and renovations, 15 years for fixed equipment, 10 years for movable equipment, and 3 to 5 years for computer software and hardware.

A detail of property, equipment, and accumulated depreciation as of December 31, 2020 and 2019, is as follows (in thousands):

	2020	2019
Land and land improvements	$ 204,844	$ 203,557
Buildings and fixed equipment	1,006,979	894,971
Movable equipment and computer software	820,048	740,758
Construction in progress	252,725	185,298
Total property and equipment	2,284,596	2,024,584
Less accumulated depreciation	(998,271)	(914,421)
Property and equipment—net	$ 1,286,325	$ 1,110,163

Beneficial Interests in Trusts—Children's is the beneficiary of the proportional income from certain perpetual third-party trusts. Children's has no access to the corpus of these trusts and has only limited input into the investment mix of the funds in the trusts in some cases. The estimated fair value of these trusts has been recorded as an asset and as a component of net assets with donor restriction in the accompanying consolidated balance sheets. Management's estimate of fair value is updated annually, the effect of which is included in the accompanying consolidated statements of changes in net assets as an increase in net assets with donor restriction.

Net Patient Service Revenue and Patient Accounts Receivable—All revenue is recognized at the point in time when the services are provided at an amount that reflects the consideration Children's expects to realize from the provision of those services. Children's has agreements with third-party payors that provide for payments to Children's at amounts different from its established rates. Payment arrangements may include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue and patient accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and expected bad debts. Retroactive adjustments are accrued on an estimated basis in the period that related services are rendered and adjusted in future periods as final settlements are determined.

A summary of the payment arrangements with major third-party payors is as follows:

Medicaid and Other Governmental Programs—Payments for inpatient services rendered to Medicaid patients are based on prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for outpatient services rendered under this program are generally based on the reasonable cost of providing care or fee schedules.

Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. Net patient service revenue increased approximately $1,657,000 in 2020 and decreased approximately $154,000 in 2019, due to cash payments and the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to reviews, audits, or investigation. Children's recognizes that net patient service revenue and patient accounts receivable from government agencies are significant to its operations.

Managed Care and Commercial Programs—Children's has entered into payment arrangements with certain commercial insurance companies and managed care providers. The basis for payment to Children's under these agreements may include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Children's recognizes patient service revenue for patients that do not qualify for charity care based on standard rates for services provided. A significant portion of the patients that do not qualify for charity care will be unable or unwilling to pay for services provided. Thus, Children's records a provision for doubtful accounts related to these patients in the period the services are provided. Patient service revenue, net of contractual allowances, discounts, and estimated bad debts, recognized for the years ended December 31, 2020 and 2019, by payor, was approximately (in thousands):

	2020		2019	
Medicaid and Medicare	$ 657,083	38 %	$ 695,300	39 %
Managed care	1,065,967	62	1,092,321	61
Self pay	8,731	-	5,889	-
Total	$ 1,731,781	100 %	$ 1,793,510	100 %

Contributions—Contributions are recorded at fair value upon receipt of cash or other assets or when unconditional promises to contribute are received and are included in contributions receivable and noncurrent contributions receivable in the accompanying consolidated balance sheets. Conditional promises to give are reported at fair value at the date the gift is received or at the time the condition is substantially met. Promises to pay are discounted to their present value using an interest rate commensurate with the collection risk involved. Gifts, bequests, and promises to pay, which are restricted by donors as to use or to be received in excess of one year, are recorded as net assets with donor restriction until used in the manner designated or upon expiration of the time period over which the assets are to be received.

Assets released from restrictions for their intended purposes are included in operating revenues in the accompanying consolidated statements of operations or as a transfer to net assets without donor restriction in the accompanying consolidated statements of changes in net assets if the use is for a capital item. Donated property and equipment are recorded as net assets with donor restriction at fair market value on the date of receipt. When donated property and equipment are used for their intended purposes, the applicable amount is transferred to net assets without donor restriction.

Contributions receivable as of December 31, 2020 and 2019, are as follows (in thousands):

	2020	2019
Due in less than one year	$ 62,481	$ 35,816
Due between one and ten years	244,470	72,546
Total contributions receivable	306,951	108,362
Allowance for uncollectible amounts	(41,012)	(7,334)
Contributions receivable—net	$ 265,939	$ 101,028

Research Pledges—To further its mission of encouraging scientific investigation into the medical problems of children, Children's periodically makes irrevocable research funding commitments to third parties. At December 31, 2020, Children's had outstanding funding commitments of approximately $93,950,000 to fund pediatric research in the Atlanta, Georgia, area. These irrevocable research commitments were recorded as a component of purchased services in the year of commitment.

Income Taxes—Children's is primarily composed of organizations that have been recognized by the Internal Revenue Service as tax exempt under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying consolidated statements of operations. Sibley Cardiology and The Children's Care Network are taxable entities and the provision for income taxes was not material for the years ended December 31, 2020 and 2019.

Supplemental Cash Flow Information—Children's significant non-cash adjustments and other supplemental cash flow information are as follows (in thousands):

	2020	2019
Adjustments for significant non-cash items:		
Property additions recorded in accrued liabilities	$ 6,542	$ 12,200
Supplemental cash flow information:		
Cash paid for interest [1]	$ 50,595	$ 31,621

[1] Of the amount paid in 2020, $16,774, net of escrow earnings and fees, was capitalized.

Use of Estimates—The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Further, these estimates and other factors, including those outside the control of Children's, such as market fluctuations, may have a significant impact to the business, financial position, results of operations, and cash flows of Children's. Actual results could differ from those estimates.

COVID-19 and CARES Act Revenue—On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. On March 27, 2020, the United States federal government passed the Coronavirus Aid, Relief, and Economic Stimulus Act ("CARES Act"), which allotted $175 billion dollars ("Provider Relief Funding") to healthcare providers and suppliers. As a condition to retaining the funding, providers must agree to certain terms and conditions, including among other conditions, that the funds be used for COVID-19 related expenses or lost revenues as defined by the U.S. Department of Health and Human Services ("HHS"). Provider Relief Funding received from the HHS, for which Children's qualified, was $68,293,000 as of December 31, 2020. Children's recognized as revenue the full amount of Provider Relief Funding received based on information contained in laws and regulations, as well as interpretations issued by HHS that were publicly available at December 31, 2020.

Recent Accounting Pronouncements—

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which provides accounting guidance for fees paid by a customer in a cloud computing arrangement that is a service contract to determine which implementation costs to capitalize as an asset related to the service contract and which to expense. Children's adopted the guidance provided in ASU No. 2018-15 for the fiscal year beginning January 1, 2020, using the prospective approach which had no impact on its consolidated financial statements and related disclosures

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Subtopic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides elective accounting transition guidance for entities that have contracts, hedging relationships, and other transactions that reference London InterBank Offered Rate or another reference rate expected to be discontinued because of reference rate reform. The ASU can be adopted upon transition to a new reference rate through December 31, 2022. Children's is currently evaluating the provisions of ASU No. 2020-04 to determine the impact on its consolidated financial statements and related disclosures.

2. NET ASSETS WITH RESTRICTIONS

Net assets with restrictions include net assets subject to stipulations imposed by donors, grantors, or the Board. Net assets with donor restriction will be met by expenditure for a specific purpose or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Net Assets with Donor Restriction Subject to Expenditure for Specific Purpose or Passage of Time— Net assets with donor restrictions are restricted for the following purposes as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Clinical	$ 67,738	$ 55,040
Academics	53,887	55,082
Child advocacy	1,066	1,369
Capital	230,226	41,808
Multipurpose	32,592	40,739
Time	1,678	1,562
Total	$ 387,187	$ 195,600

Net Assets with Donor Restriction Subject to Spending Policy and Appropriation—Investments in perpetuity, including amounts above original gift amount of $102,722,750 which once appropriated under the spending policy, are expendable to support as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Clinical	$ 303,874	$ 286,801
Academics	76,031	63,781
Child advocacy	10,740	9,941
Multipurpose	83,255	80,235
Total	$ 473,900	$ 440,758
Total net assets with donor restrictions	$ 861,087	$ 636,358

Net Assets without Donor Restriction Subject to Board Designation and Appropriation—The Children's Board has quasi-endowed, from net assets without donor restriction, funds for the following purposes as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Academics	$ 1,103,919	$ 971,420
Child advocacy	237,688	211,757
Behavioral health	452,030	400,000
Other	32,542	28,631
Total	$ 1,826,179	$ 1,611,808

Children's follows authoritative guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This guidance also requires enhanced disclosures for all endowment funds, including funds designated as endowments by the Board. Children's has interpreted UPMIFA as requiring the preservation of fair value of the original gift absent explicit donor stipulations to the contrary. As a result, Children's classifies the original value of the gifts donated to the permanent endowment, the income derived from which is expendable to support the various programs sponsored by Children's in accordance with the donor's wishes. The remaining portion of the donor-restricted endowment funds are appropriated for expenditures by Children's consistent with the donor's wishes. Losses on the investments of donor-restricted endowment funds are recorded as a reduction of net assets with donor restriction to the extent that donor-imposed restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce net assets without donor restriction and are excluded from revenues over expenses.

Children's investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by the endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Children's must hold in perpetuity and the unexpended appreciation on those funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the market average, after fees, while assuming a moderate level of investment risk. Children's expects its endowment funds, over time, to provide a real rate of return of 5% (net of fees and adjusted for inflation) as calculated based on rolling five-year periods. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, Children's relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Children's targets a diversified asset allocation intended to achieve its long-term return objectives within prudent risk constraints.

Children's has a policy of appropriating, for distribution each year, no more than 5% of its endowment funds based on a 12-quarter rolling average market value. In establishing this policy, Children's considered the long-term expected return on its endowments.

Endowment net asset composition by type of fund as of December 31, 2020 and 2019, is as follows (in thousands):

	2020			2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor-restricted funds	$ -	$ 470,320	$ 470,320	$ -	$ 437,837	$ 437,837
Board-designated funds	1,826,179	-	1,826,179	1,611,808	-	1,611,808
Total funds	$ 1,826,179	$ 470,320	$ 2,296,499	$ 1,611,808	$ 437,837	$ 2,049,645

Endowment net asset balances and activities for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Balance—December 31, 2018	$ 1,125,189	$ 403,566	$ 1,528,755
Investment income and other	133,600	30,748	164,348
Increase in beneficial interest in trusts	-	10,667	10,667
Board quasi-endowment	400,000	-	400,000
Contributions	2,000	6,544	8,544
Appropriations for expenditures	(48,981)	(13,688)	(62,669)
Balance—December 31, 2019	1,611,808	437,837	2,049,645
Investment income and other	239,577	31,690	271,267
Increase in beneficial interest in trusts	-	8,498	8,498
Board quasi-endowment	1,500	1,500	3,000
Contributions	-	3,106	3,106
Appropriations for expenditures	(26,706)	(12,311)	(39,017)
Balance—December 31, 2020	$ 1,826,179	$ 470,320	$ 2,296,499

Children’s receives restricted contributions on behalf of strategic partners for specific purposes. Such restricted contributions are recorded as contributions to net assets with donor restriction and are reclassified from restriction when the amounts are sent to the intended recipient. For the years ended December 31, 2020 and 2019, Children’s released from net assets with donor restriction $1,386,000 and $1,890,000, respectively.

3. COMMUNITY BENEFIT AND CHARITY CARE

In accordance with its mission, Children’s commits significant resources to promote the health and well-being of children. In support of this endeavor, Children’s recognizes that some of its most fragile constituents are children whose families are financially or medically indigent. To that end, Children’s provides medical treatment to children whose family or custodians are unable to pay for such treatment. Children’s ensures that charity care, indigent care, education, research, and other sponsored community programs (“Community Benefit”) benefit all children, regardless of economic status. Therefore, Children’s maintains Community Benefit programs, within limits, that are available to the entire community, with equal consideration for those who are poor and underserved. Total Community Benefit for the year ended December 31, 2020, is estimated to be $299,600,000. Total Community Benefit for the year ended December 31, 2019, as reported in annual filings to the Internal Revenue Service, was $238,600,000.

Unreimbursed costs for charity care and Medicaid services, a component of Community Benefit, is calculated using a cost-to-charge ratio times the amount of unreimbursed charges, net of funding from the State of Georgia for neonatal care, and other funding provided to defray these costs. Children’s estimates unreimbursed costs for charity care and Medicaid services to be approximately $158,400,000 for the year ended December 31, 2020. Total unreimbursed costs for charity care and Medicaid services for the year ended December 31, 2019, as reported in annual flings to the Internal Revenue Service, was $130,800,000.

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

Children's liquidity and availability of resources to meet cash needs within one year is presented below. Children's financial assets are reduced by amounts not available for general use because of contractual, donor-imposed, or board-imposed restrictions. Amounts not available include amounts set aside for quasi-endowment that could be drawn upon if the Board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable. Amounts available to meet cash needs for general expenditures within one year are as follows (in thousands):

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 161,705	$ 102,722
Patient accounts receivable—net	261,755	233,803
Assets whose use is limited	6,929,068	6,089,897
Contributions receivable—net	61,210	35,070
Other receivables	31,155	4,832
Total financial assets	7,444,893	6,466,324
Less those unavailable for general expenditure within one year due to:		
Contractual or donor-imposed restrictions:		
Subject to expenditure for specific purpose or passage of time	(387,187)	(195,600)
Subject to spending policy and appropriation	(473,900)	(440,758)
Bond agreement for asset construction	(574,250)	(769,521)
Collateral held for interest rate swap agreement	(46,590)	(29,600)
Board designations—quasi-endowments	(1,826,179)	(1,611,808)
Amounts set aside for standby bond purchase agreement	(57,093)	(57,591)
Unencumbered investments in hedge funds	(1,512,964)	(919,355)
Unencumbered investments in nonmarketable securities	(665,403)	(468,033)
Unencumbered other equity securities	(4,173)	-
Financial assets available to meet cash needs for general expenditures within one year	$ 1,897,154	$ 1,974,058

Children's is supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Children's must maintain sufficient resources to meet these responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Children's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Children's invests cash in excess of daily requirements in short-term investments.

5. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use as of December 31, 2020 and 2019, is set forth in the following table (in thousands):

	2020	2019
Board-designated for asset acquisition, uncompensated care, debt service, strategic, and operational activities:		
Cash and cash equivalents	$ 278,449	$ 419,429
Equity securities	1,883,940	1,897,310
Other equity securities	5,325	-
Debt securities	508,034	642,072
Hedge funds	1,930,611	1,176,068
Investments in nonmarketable securities	849,084	598,722
Held for capital projects:		
Cash and cash equivalents	184,706	193,111
Debt securities	252,641	-
Cash, cash equivalents, and debt securities held for interest rate swap agreement	46,590	29,600
Subtotal	5,939,380	4,956,312
Bond agreement designated for asset construction:		
Cash and cash equivalents	117,966	40,772
Debt securities	456,284	728,749
Subtotal	574,250	769,521
Donor-restricted for special purposes, such as uncompensated child care:		
Cash and cash equivalents	21,208	32,269
Equity securities	143,412	145,853
Other equity securities	406	-
Debt securities	38,695	49,398
Hedge funds	147,046	90,481
Investments in nonmarketable securities	64,671	46,063
Subtotal	415,438	364,064
Total assets whose use is limited	6,929,068	6,089,897
Less portion classified as current (Note 7)	(57,093)	(57,591)
Total assets whose use is limited—noncurrent	$ 6,871,975	$ 6,032,306

Investment Income—Significant components of investment income for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Investment income and other:						
Interest and dividends	$ 27,702	$ -	$ 27,702	$ 50,176	$ -	$ 50,176
Net realized gains on sales of investments	107,938	5,798	113,736	198,428	10,452	208,880
Net unrealized gains on investments	482,027	25,892	507,919	388,604	20,468	409,072
Equity in income of unconsolidated investments	143,824	-	143,824	24,160	-	24,160
Total investment income and other	761,491	31,690	793,181	661,368	30,920	692,288
Less investment expenses	(12,576)	-	(12,576)	(4,523)	-	(4,523)
Net of investment expenses	748,915	31,690	780,605	656,845	30,920	687,765
Less investment return designated for operations	(25,752)	-	(25,752)	(23,675)	-	(23,675)
Total	$723,163	$31,690	$754,853	$633,170	$30,920	$664,090

Investments in Nonmarketable Securities Accounted for under the Equity Method—The accompanying consolidated statements of operations reflect equity in income related to Children's investment in nonmarketable securities required to be accounted for under the equity method of accounting of approximately $143,824,000 and $24,160,000 for the years ended December 31, 2020 and 2019, respectively.

Summarized unaudited financial information for the entities represented by the nonmarketable securities Children's accounts for under the equity method as of and for the years ended December 31, 2020 and 2019, is as follows (in thousands):

	2020	2019
Total assets	$ 113,499,323	$ 88,330,865
Total liabilities	4,476,114	8,911,723
Equity	109,023,209	79,419,142
Revenue	865,504	1,147,344
Net unrealized income	17,321,491	6,233,320
Net income	19,645,007	12,391,268

At December 31, 2020, Children's had outstanding funding commitments to purchase general investment partnership interests of approximately $750,184,000. These commitments will be met over the next five years.

6. FAIR VALUE MEASUREMENTS

Children's uses fair value to measure certain financial assets and financial liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability ("exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, Children's uses various valuation approaches. The hierarchy of those valuation approaches is broken down into three levels based on the reliability of inputs as follows:

Level 1—Inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment.

Level 2—Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals or current market), and contractual prices for the underlying financial instrument, as well as other relevant economic measures.

Level 3—Inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The fair value table presents information about Children's assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019, as follows (in thousands):

Fair Value—December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets whose use is limited:				
Cash and cash equivalents	$ 648,919	$ -	$ -	$ 648,919
Equity securities:				
US equities	440,404	-	-	440,404
Non-US equities	72,453	-	-	72,453
Debt securities:				
Government agencies	-	1,255,654	-	1,255,654
Mutual funds:				
Equity funds	213,768	326,806	-	540,574
Fixed-income funds	175,839	-	-	175,839
Beneficial interests in trusts	-	-	179,723	179,723
Total assets at fair value	$1,551,383	$1,582,460	$179,723	3,313,566
Net asset value:				
Commingled equity funds				798,082
Hedge funds				2,077,657
Other equity securities				5,731
Total				$6,195,036
Liabilities—interest rate swap agreements	$ -	$ 117,948	$ -	$ 117,948

Fair Value—December 31, 2019	Level 1	Level 2	Level 3	Total
Assets whose use is limited:				
Cash and cash equivalents	$ 715,181	$ -	$ -	$ 715,181
Equity securities:				
US equities	320,723	-	-	320,723
Non-US equities	51,773	-	-	51,773
Debt securities:				
Government agencies	-	1,348,840	-	1,348,840
Corporate bonds	-	68,429	-	68,429
Other	-	2,950	-	2,950
Mutual funds:				
Equity funds	467,777	686,472	-	1,154,249
Fixed-income funds	1,137	-	-	1,137
Beneficial interests in trusts	-	-	171,109	171,109
Total assets at fair value	$1,556,591	$2,106,691	$171,109	3,834,391
Net asset value:				
Commingled equity funds				515,281
Hedge funds				1,266,549
Total				$5,616,221
Liabilities—interest rate swap agreements	$ -	$ 93,305	$ -	$ 93,305

The estimated fair value of beneficial interests in trusts is based on unobservable inputs that are not corroborated by observable market data and are thus classified as Level 3. Beneficial interests in trusts are primarily valued based on expected discounted cash flows or, in some cases, on the value of underlying assets.

Investments Measured at Net Asset Value

Commingled Equity Funds—As of December 31, 2020 and 2019, Children's held approximately $798,082,000 and $515,281,000, respectively, in commingled equity funds that are not publicly traded. The underlying assets in the funds are publicly traded on the exchanges and price quotes for the assets held by the funds are readily available. These investments are redeemable at net asset value and can be liquidated, subject to a 7-day to 30-day notification period.

Hedge Funds—As of December 31, 2020 and 2019, Children's held approximately $2,077,657,000 and $1,266,549,000, respectively, in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. These funds typically allow redemptions quarterly, annually, or biannually and require a redemption notification period of 45 days to 90 days. No unfunded commitments existed with respect to these hedge funds as of December 31, 2020.

Other Equity Securities—As of December 31, 2020, Children's held approximately $5,731,000 in other equity securities that are not publicly traded and do not allow redemption within an initial three-year period. As of December 31, 2020, Children's had $44,300,000 in remaining funding commitments with a three-year lock up period.

The changes in assets classified as Level 3 for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	2020	2019
Balance—January 1	$ 171,109	$ 160,270
Contributions	1,136	-
Realized and unrealized gains—net of fees	7,478	10,839
Balance—December 31	$ 179,723	$ 171,109

During the years ended December 31, 2020 and 2019, there were no significant transfers between Level 1, Level 2, or Level 3 investments.

Cash and Cash Equivalents and Accounts Receivables—The carrying amount approximates fair value because of the short-term nature of these instruments.

7. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2020 and 2019, is as follows (in thousands):

	2020	2019
2008 Certificates & Bonds—2008 variable rate revenue anticipation certificates and bonds due July 2042. Interest rates range from 0.80% to 5.26% for the year ended December 31, 2020. Mandatory sinking fund redemption beginning July 2009.	$ 65,335	$ 65,895
2017 Certificates & Bonds—2017 variable rate revenue anticipation certificates and bonds due July 2039. Interest rates range from 0.37% to 1.69% for the year ended December 31, 2020.	163,625	166,050
2019 Certificates & Bonds—2019 fixed and variable rate revenue anticipation certificates and bonds due July 2049. Interest rates range from 0.09% to 5.95% payable semiannually—including unamortized premium of $103,430 in 2020 and $112,553 in 2019. Mandatory sinking fund redemption beginning July 2040.	1,083,925	1,115,708
2013 Surgery Center Commercial Note—Term note paid in December 2020 Interest rate of 3.50%. Principal and interest payable monthly.	-	437
Subtotal	1,312,885	1,348,090
Less bond issuance costs	(6,954)	(7,735)
Less current maturities of long-term debt	(30,309)	(35,111)
Less long-term debt classified as current due to terms of standby purchase agreements	(57,093)	(57,591)
Long-term debt—net of portion classified as current	$ 1,218,529	$ 1,247,653

In February 2008, the DeKalb Private Hospital Authority (the "DeKalb Authority") issued approximately $120,000,000 in tax-exempt revenue anticipation certificates and the Development Authority of Fulton County (the "Fulton Authority") issued approximately $72,965,000 of tax-exempt revenue bonds (collectively, the "2008 Certificates & Bonds") pursuant to a trust indenture by and among the DeKalb Authority, the Fulton Authority, and certain investment banks. The proceeds were loaned to Children's pursuant to loan agreements between the DeKalb Authority and Children's and the Fulton Authority and Children's and were used to make capital additions and renovations at the hospitals.

In April 2017, the DeKalb Authority issued approximately $163,000,000 in tax-exempt revenue anticipation certificates and the Fulton Authority issued approximately $57,000,000 of tax-exempt revenue bonds (collectively, the "2017 Certificates & Bonds") pursuant to a trust indenture by and among the DeKalb Authority and the Fulton Authority. The 2017 Certificates & Bonds were acquired under a direct placement agreement by a financial institution for a 10-year term. The proceeds were loaned to Children's pursuant to loan agreements between the DeKalb Authority and Children's and the Fulton Authority and Children's and were used to make capital additions and renovations at the hospitals, reimbursement of routine capital, and development of an ambulatory care facility.

On August 20, 2019, the Brookhaven Development Authority ("Brookhaven Authority") issued approximately $736,765,000 in fixed rate tax-exempt revenue bonds and $109,885,000 in variable rate tax-exempt revenue bonds; the DeKalb Authority issued approximately $81,255,000 in fixed rate tax-exempt revenue anticipation certificates; and the Fulton Authority issued approximately $75,250,000 in fixed rate tax-exempt revenue bonds (collectively, "2019 Certificates & Bonds") pursuant to a trust indenture by and among Brookhaven Authority, the DeKalb Authority, the Fulton Authority, and certain investment banks. The proceeds were loaned to Children's pursuant to loan agreements between the Brookhaven Authority and Children's; the DeKalb Authority and Children's; and the Fulton Authority and Children's and is being used to fund the North Druid Hills medical campus and refund certain certificates and bonds.

The variable rate 2008 Certificates & Bonds and the variable rate 2019 Certificates & Bonds (collectively, the "Variable Rate Certificates & Bonds") are remarketed on a weekly basis and the bondholders have the ability to tender any or all of the bonds at each remarketing date. Children's has a standby purchase agreement ("SBPA") with a financial institution to serve as security for the payment of the Variable Rate Certificates & Bonds. In the event bondholders elect to tender any or all of the Variable Rate Certificates & Bonds for purchase and the revenue bonds are not able to be remarketed, the SBPA is utilized to purchase the revenue bonds. Any amounts outstanding on the SBPA are repayable over a three-year period. As a result, Children's has included $57,093,000 and $57,591,000 in current liabilities as of December 31, 2020 and 2019, respectively. There were no amounts outstanding at December 31, 2020 or 2019.

Interest Rate Swap Agreements—In connection with certain bond issues, Children's entered into interest rate swap agreements with three banks effectively converting Children's interest rate exposure on a portion of this debt from a variable to a fixed rate. Children's does not follow hedge accounting for these interest rate swaps. The interest rate swaps had an aggregate notional amount of approximately $336,400,000 and $341,705,000 at December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, Children's has recorded a liability of approximately $117,948,000 and $93,305,000, respectively, related to these interest rate swaps in other noncurrent liabilities in the accompanying consolidated balance sheets. The decrease in fair value of these interest rate swaps of approximately $24,642,000 and $23,235,000 is included in revenues over expenses in the accompanying consolidated statements of operations for the years ended December 31, 2020 and 2019, respectively.

Bond Issuance Costs—Costs incurred in issuing long-term debt are amortized over the life of the underlying debt. The gross amount of bond issuance costs as of December 31, 2020 and 2019, totaled $10,487,000 and the related accumulated amortization totaled $3,533,000 and $2,752,000, respectively.

Debt Maturities—Future scheduled maturities of long-term debt as of December 31, 2020, are as follows (in thousands):

Years Ending December 31	
2021	$ 21,625
2022	22,615
2023	23,670
2024	24,760
2025	25,935
Thereafter	1,090,850
Total	$ 1,209,455

8. LEASES

Children's leases property and equipment under operating leases. For lease terms over a year, Children's records the related right-of-use assets and right-of-use obligations at the present value of lease payments over the term. Many leases include rental escalation clauses and renewal options that are factored into estimated lease payments when appropriate.

Children's utilizes an incremental borrowing rate to discount the lease payments based on information available at lease commencement when readily determinable implicit interest rates are not available.

The following table presents Children's lease-related assets and liabilities as of December 31, 2020 (in thousands):

	Balance Sheet Classification	Amount
Assets:		
Operating leases	Right-of-use lease assets	$ 45,179
Total lease assets		$ 45,179
Liabilities:		
Operating leases:		
Current	Current portion of right-of-use lease obligations	$ 10,045
Long-term	Right-of-use lease obligations	37,226
Total lease liabilities		$ 47,271
Weighted-average remaining term		6.3 years
Weighted-average discount rate		2.49 %

Total operating lease expense amounted to approximately $16,191,000 and $17,758,000 for the years ended December 31, 2020 and 2019, respectively, and were included as other expenses on the consolidated statements of operations.

The following table presents undiscounted minimum lease payments for the year ended December 31, 2020 (in thousands):

Years Ending December 31	
2021	$ 11,398
2022	10,011
2023	9,366
2024	8,627
2025	7,803
Thereafter	16,675
Total minimum lease payments	63,880
Less amount of lease payments representing interest	(16,609)
Present value of future minimum lease payments	47,271
Less current obligations under lease	(10,045)
Long-term lease obligations	$ 37,226

For the year ended December 31, 2020, the cash flow and other information related to leases were as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows from operating and short-term leases	$ 9,721
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	$ 4,017

9. RETIREMENT BENEFITS

Children's maintains defined contribution retirement plans. Contributions to the plans were $44,074,000 and $44,276,000 for the years ended December 31, 2020 and 2019, respectively.

10. COMMITMENTS AND CONTINGENCIES

Insurance Arrangements—Children's is self-insured for a substantial portion of its general and medical professional liability risks. Children's maintains self-insurance plan limits of $1,000,000 per occurrence for general liability and $3,000,000 per medical incident for professional liability, plus a $4,500,000 each loss/$4,500,000 aggregate self-insured professional liability buffer layer. The self-insurance plan is subject to a $21,500,000 combined annual aggregate limit. General liability coverage is occurrence based and professional liability coverage is provided on a claims-made basis. In addition, claims incurred but not reported prior to January 1, 2001, are covered under a commercial insurance policy subject to a $250,000 per occurrence and $750,000 aggregate retention.

The accrual for self-insured general and medical professional liability losses, including loss adjustment expense, is based on actuarial estimates using historical claims experience adjusted for current industry trends. The actual claim settlements and expenses may differ from amounts provided, but in the opinion of management, an adequate accrual has been made for such claims at December 31, 2020 and 2019.

Children's self-insures its health insurance and workers' compensation programs, supplemented with certain stop-loss coverages. Estimates are made for known claims outstanding and claims incurred but not reported under the programs and are recorded as accrued liabilities in the accompanying consolidated balance sheets.

Litigation—Certain lawsuits have been filed against Children's claiming alleged personal and punitive damages. While the outcome of these lawsuits is not presently determinable, it is the opinion of management that the claims will not have a material adverse effect on Children's consolidated financial position, results of operations, or cash flows.

11. FUNCTIONAL EXPENSES

The mission of Children's is to make kids better today and healthier tomorrow. Program expenses relating to this mission, general and administrative, and fundraising for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	2020			
	Program	General and Administrative	Fund-Raising	Total
Salaries and wages	$ 780,186	$ 48,918	$ 7,286	$ 836,390
Employee benefits	155,193	10,840	1,386	167,419
Purchased services	192,431	22,529	3,865	218,825
Supplies	203,557	1,344	82	204,983
Other expenses	85,653	8,642	1,732	96,027
Interest expense	18,552	-	-	18,552
Depreciation	78,695	19,637	47	98,379
Total	$ 1,514,267	$ 111,910	$ 14,398	$ 1,640,575

	2019			
	Program	General and Administrative	Fund-Raising	Total
Salaries and wages	$ 781,089	$ 47,877	$ 8,525	$ 837,491
Employee benefits	186,556	12,773	1,916	201,245
Purchased services	153,347	17,226	5,106	175,679
Supplies	201,945	797	115	202,857
Other expenses	97,690	12,187	1,836	111,713
Interest expense	23,904	-	-	23,904
Depreciation	75,996	13,561	35	89,592
Total	$ 1,520,527	$ 104,421	$ 17,533	$ 1,642,481

Allocation of General and Administrative Expenses—The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of Children's. Those expenses include depreciation and amortization, interest expense, information technology, and system administration among others. Depreciation is allocated based on fixed asset cost, interest expense is allocated based on debt-financed asset cost, information technology is based on full-time equivalent employees, and system administration is based on estimates of time and effort. Salaries are reported in the program or supporting function where the effort was expended.

12. SUBSEQUENT EVENTS

Children's has evaluated events and transactions for potential recognition or disclosure through May 26, 2021, the date the consolidated financial statements were issued.

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