CHILDREN'S HEALTH CARE

Consolidated Financial Statements

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

CHILDREN'S HEALTH CARE

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Children's Health Care:

Opinion

We have audited the consolidated financial statements of Children's Health Care and its subsidiaries (Children's), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Children's as of December 31, 2023 and 2022, and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Children's and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Children's's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

KPMG

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Children's's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Children's's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2023 supplemental consolidating financial information on pages 44 to 46 are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Minneapolis, Minnesota
April 19, 2024

CHILDREN'S HEALTH CARE

Consolidated Balance Sheets

December 31, 2023 and 2022

(In thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	66,391	33,688
Short-term investments		—	6,944
Short-term investments, board-designated		177	4
Funds held by trustee		6	6
Patient accounts receivable		192,954	175,126
Prepaid expenses and other current assets		53,152	53,208
Total current assets		312,680	268,976
Long-term investments		1,023,831	970,172
Board-designated investments		126,717	117,949
Operating lease right-of-use assets, net		26,267	29,324
Other assets		88,904	81,683
Land, buildings, and equipment – net		300,897	287,571
Total	$	1,879,296	1,755,675
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$	2,289	2,264
Current portion of operating lease liabilities		5,945	6,038
Accounts payable and accrued expenses		91,477	59,654
Accrued salaries, wages, and benefits		64,953	62,069
Other current liabilities		17,779	16,675
Total current liabilities		182,443	146,700
Fair value of interest rate swaps		6,222	6,569
Other long-term liabilities		20,307	18,932
Long-term portion of operating lease liabilities		30,161	33,136
Long-term debt – excluding current maturities		285,689	287,933
Total liabilities		524,822	493,270
Net assets:			
Net assets without donor restrictions		1,265,876	1,178,598
Net assets with donor restrictions		88,598	83,807
Total net assets		1,354,474	1,262,405
Total	$	1,879,296	1,755,675

See accompanying notes to consolidated financial statements.

CHILDREN'S HEALTH CARE

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2023 and 2022

(In thousands)

		2023	2022
Revenue:			
Patient service revenue	$	1,057,582	1,001,565
Net assets released from restrictions for operations		11,981	11,768
Other		47,631	56,216
Total revenue		1,117,194	1,069,549
Expenses:			
Salaries, wages, and employee benefits		688,942	640,176
Professional fees and purchased services		136,458	117,538
Supplies		135,658	121,249
Facilities		18,134	17,402
Depreciation and amortization		48,494	41,957
Financing costs		11,161	10,998
Health services taxes		28,022	27,946
Other		78,165	59,193
Total expenses		1,145,034	1,036,459
Operating (loss) income before strike expenses		(27,840)	33,090
Strike expenses		—	5,854
Operating (loss) income		(27,840)	27,236
Nonoperating gains (losses):			
Investment income and realized gains		40,797	10,408
Income (loss) on investments accounted for under the equity method		631	(939)
Net unrealized gains (losses) on investments		72,328	(129,439)
Change in fair value of interest rate swaps		347	13,040
Nonservice component of pension expense		82	645
Total nonoperating gains (losses)		114,185	(106,285)
Excess (deficiency) of revenues over expenses		86,345	(79,049)

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CHILDREN'S HEALTH CARE

Consolidated Statements of Operations and Changes in Net Assets (continued)

Years ended December 31, 2023 and 2022

(In thousands)

		2023	2022
Net assets without donor restrictions:			
Excess (deficiency) of revenue over expenses	$	86,345	(79,049)
Net assets released from restrictions – capital acquisitions		1,804	805
RSVP plan-related changes other than net periodic plan expense		(871)	2,219
Increase (decrease) in net assets without donor restrictions		87,278	(76,025)
Net assets with donor restrictions:			
Contributions		11,254	16,490
Investment income		2,774	894
Net unrealized gains (losses) on investments		4,191	(7,196)
Net assets released from restrictions – operations		(11,981)	(11,768)
Net assets released from restrictions – capital acquisitions		(1,804)	(805)
Change in value of perpetual trusts held by others		357	(1,141)
Increase (decrease) in net assets with donor restrictions		4,791	(3,526)
Increase (decrease) in net assets		92,069	(79,551)
Net assets – beginning of year		1,262,405	1,341,956
Net assets – end of year	$	1,354,474	1,262,405

See accompanying notes to consolidated financial statements.

CHILDREN'S HEALTH CARE

Consolidated Statements of Cash Flows

Twelve Months ended December 31, 2023 and 2022

		2023	2022
Cash flows from operating activities:			
Increase (decrease) in net assets	$	92,069	(79,551)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		48,494	41,957
Net unrealized (gains) losses on investments		(76,993)	137,551
Net realized (losses) gains on investments		(3,807)	29,573
RSVP plan-related changes other than net periodic expense		871	(2,219)
Change in fair value of interest rate swaps		(347)	(13,040)
(Income) loss on investments accounted for under the equity method		(631)	939
Other		(1,864)	792
Changes in assets and liabilities:			
Patient accounts receivable		(17,828)	(11,043)
Prepaid expenses and other current assets		56	8,048
Other assets		(7,681)	(2,991)
Accounts payable and accrued expenses		28,132	3,698
Accrued salaries, wages, and benefits		2,884	(17,770)
Other liabilities		(433)	(6,647)
Net cash provided by operating activities		62,922	89,297
Cash flows from investing activities:			
Purchase of land, buildings, and equipment		(59,537)	(44,883)
Distributions received from joint ventures		2,975	3,425
Purchase of investments and funds held by trustee		(1,285,307)	(1,524,943)
Cash paid for equity investment		(500)	—
Proceeds from sale and maturities of investments and funds held by trustee		1,314,400	1,496,966
Net cash used in investing activities		(27,969)	(69,435)
Cash flows from financing activities:			
Principal payments on long-term debt		(2,375)	(2,385)
Draws on line of credit		44,100	—
Payments on line of credit		(44,100)	—
Contributions restricted for long-lived purposes		125	161
Net cash used in financing activities		(2,250)	(2,224)
Net increase in cash and cash equivalents		32,703	17,638
Cash and cash equivalents – beginning of year		33,688	16,050
Cash and cash equivalents – end of year	$	66,391	33,688
Supplemental cash flow disclosures:			
Cash paid for interest	$	11,102	8,848
Property and equipment included in accounts payable		3,718	2,803

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Children's Health Care (Children's), d/b/a Children's Minnesota, is a not-for-profit corporation organized under the laws of the State of Minnesota for the treatment and care of infants, children, and adolescents and the promotion and administration of charitable care, research, and educational activities.

Children's owns and operates two tertiary facilities, Children's – Minneapolis and Children's – St. Paul, that operate under one provider license from the State of Minnesota; two separate and controlled not-for-profit corporations, Children's Health Care Services, Inc., d/b/a Children's Minnetonka, and Children's Health Care Foundation, d/b/a Children's Foundation (the Children's Foundation); and three affiliate organizations, Children's Health Insurance Network, Ltd. (CHIN), which handles professional liability claims (note 6), Children's Clinic Network, which owns and operates community-based clinics, and Children's Minnesota Home Medical Equipment (CHME), which provides home medical equipment services. Children's is also the sole corporate and nonvoting member of Children's Health Network (CHN), a clinically integrated network created by Children's to be a leading advocate for providing the highest quality of care for children and their families. The consolidated financial statements include the accounts of Children's Health Care and its subsidiaries. The "Obligated Group" consists of, collectively, Children's – Minneapolis; Children's – St. Paul; and Corporate, plus the subsidiaries, Children's Minnetonka, Children's Foundation, and Children's Clinic Network.

(b) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting.

(c) Consolidation

All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Investments in entities that Children's does not control, but which Children's has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. Investments in entities that Children's does not control, does not have a substantial ownership interest, and cannot exercise significant influence are accounted for using the cost method.

(d) Mother Baby Joint Operating Agreement and Center

Children's has a joint operating agreement with Allina Health (Allina), a Minnesota not-for-profit corporation, to collaborate on certain obstetric, normal newborn, perinatology, and neonatal service lines. The joint operating agreement is herein referred to as the "Mother Baby" program and is governed by a joint operating committee with equal membership from Children's and Allina for a 20-year term, with extension provisions, that began on January 1, 2011. Under this collaborative arrangement, there is an equalization payment whereby Children's receives 72% of the cash flows related to these service lines, as defined in the agreement, and Allina receives 28% of the cash flows related to these service lines. Net equalization costs are reported as other operating expenses and were $28,889 and $18,674 for the years ended December 31, 2023 and 2022, respectively. The amount due to Allina was $27,689 and $9,403 at December 31, 2023 and 2022, respectively, which is included in accounts payable and accrued expenses in the consolidated balance sheets.

Buildings and equipment for the Mother Baby program and the related depreciation expense are accounted for using proportional accounting. Under proportional accounting, Children's records Mother Baby program capital assets that it acquires, recognizes the related depreciation and amortization as a program expense, and then shares in the cash flow impact of the capital expenditures at 72%, as noted above.

(e) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimated amounts in the consolidated financial statements include explicit and implicit price concessions, and valuation of investments.

(f) Subsequent Events

Children's has evaluated all events or transactions that occurred after December 31, 2023 through April 19, 2024, the date the consolidated financial statements were issued. Children's is not aware of any material subsequent events that would require recognition or disclosure in the consolidated financial statements, other than described below.

Children's utilizes Change Healthcare (Change), a division of UnitedHealth Group (UHG), to provide certain revenue management services, including electronic prescribing, electronic payment capability, insurance batch eligibility, and electronic medical claims processing. On February 21, 2024, UHG reported that Change was the victim of a cyber attack. After learning of the cyber attack, Children's immediately disconnected from Change's systems, resulting in delays to billing and processing of certain medical claims, verification of insurance coverage, and verification of preauthorization status for hospital services. Children's also activated a backup claims processing platform and implemented manual workarounds for affected processes within revenue management. Change began restoring its systems and services the week of March 18, 2024 and Children's is currently working to process the backlog of claims and return manual workarounds to normal business processes.

The financial impact on Children's is unknown. Children's is actively working with its commercial payers to ensure patient billings are filed as timely and accurately as possible. UHG, the U.S. Department of Health and Human Services and the Center for Medicare and Medicaid Services are working to ensure patient care is not interrupted and that cash flow to impacted providers is maintained. In response to delayed cash flows due to the disruption in claims processing and billing, Children's increased its line of credit with U.S. Bank from $60,000 to $100,000. As of April 19, 2024, Children's has not drawn on this line of credit.

(g) Cash and Cash Equivalents

All short-term investments purchased with a maturity of three months or less and not otherwise classified as noncurrent assets are considered to be cash and cash equivalents and are carried at fair value.

(h) Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which Children's expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Children's bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Children's. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Children's believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in Children's hospitals receiving inpatient acute care and outpatient services. Children's measures the performance obligation 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. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Children's does not believe it is required to provide additional goods or services to the patient. Because all of its performance obligations relate to contracts with a duration of less than one year, Children's has elected to apply the optional exemption provided in FASB ASC 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 unsatisfied 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 generally occurs within days or weeks of the end of the reporting period.

As provided for under the guidance, Children's does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

Children's uses a portfolio approach to apply the revenue recognition model to classes of payors with similar characteristics and analyzes cash collection trends over an appropriate collection look-back period depending on the payor.

Children's determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third-party payors, explicit price concessions provided to uninsured patients in accordance with Children's policies, and/or implicit price concessions provided to un- or underinsured patients. Children's determines its estimates of explicit price concessions based on contractual agreements, its discount policies, and historical experience. Children's determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Government payors: Reimbursement for government payors is generally paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Other third-party payors, including commercial: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts with established charges, and prospectively determined daily rates.

Children's recognizes that revenue and receivables from third-party payors, including governmental agencies, are significant to its operations but does not believe there are significant credit risks associated with these organizations. In 2023, the top four third-party payors accounted for 32%, 25%, 21%, and 15% of patient service revenue. In 2022, the top four third-party payors accounted for 30%, 22%, 21%, and 17% of patient service revenue.

Children's grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors, net of explicit and implicit price concessions at December 31, 2023 and 2022 was as follows:

	2023	2022
Government payors	27 %	24 %
Other third-party payors	55	61
Patients	18	15
	100 %	100 %

Patient service revenue recognized for the years ended December 31, 2023 and 2022, by major payor source, was as follows:

		2023		2022	
		Inpatient	Outpatient	Inpatient	Outpatient
Government payors	$	223,866	111,958	202,833	99,627
Other third-party payors		426,393	282,805	422,876	268,249
Self-pay		8,625	3,935	5,642	2,338
Patient service revenue	$	658,884	398,698	631,351	370,214

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in

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organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Children's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Children's. In addition, the contracts Children's has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Children's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2023 and 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Children's also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. Children's estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions.

Consistent with Children's mission, care is provided to patients regardless of their ability to pay. Therefore, Children's has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Children's expects to collect based on its collection history with those patients.

Patients who meet Children'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 revenue.

(i) Investments

Investments are carried at fair value, which generally are based on quoted market prices at December 31, 2023 and 2022. Certain investments are valued at net asset value of the underlying investment vehicle as a practical expedient to fair value. Funds held by trustee are held under bond indenture agreements for debt service payments. The estimated values as determined by the respective funds' general partner or investment manager may differ significantly from the values that would have been used had readily available markets existed. A portion of investments are not intended to be used for current operations and, therefore, are classified as noncurrent assets. Realized gains and losses on sales of securities are recognized using the average cost basis.

Children's classifies its investments as trading securities. Children's invests in various securities, which may include corporate equities, corporate bonds, municipal bonds, U.S. government obligations, mortgage and asset-backed securities, private convertible notes, foreign investments, mutual funds, and swap contracts. Investment securities, in general, are exposed to various market risks, such as interest rate, credit, liquidity, foreign exchange, and price volatility. Because of these possible risks associated with the equity, bond, and currency markets, it is reasonably possible that changes in the values of various investment positions could occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements. To monitor the risk of the investment portfolio, Children's has investment policies in place and monitors the performance of all investments on a regular basis.

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost at the date of purchase or fair market value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets, which range from 3 years for certain equipment to 40 years for buildings.

(k) Deferred Financing Costs

Deferred financing costs are amortized to financing costs over the term of the related bonds using the straight-line method, which approximates the effective-interest method.

(l) MinnesotaCare Tax

Children's pays a state tax on patient service revenue receipts other than Medicare receipts in order to fund medical care for the uninsured. The tax was 1.6% and 1.8% for the years ended December 31, 2023 and 2022, respectively. Children's recognized $15,895 and $17,495 as MNCare tax in health services taxes expense on the consolidated statements of operations and changes in net assets for the years ended December 31, 2023 and 2022, respectively.

(m) Net Assets With Donor Restrictions

Net assets with donor restrictions include those whose use at Children's has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by Children's in perpetuity.

(n) Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of net assets without donor restrictions. Children's accounts for net assets with donor restrictions where the time or purpose restriction has been satisfied during the year as net assets with donor restrictions released from restriction.

(o) Community Benefits and Charity Care

To further its purpose as a charitable organization, Children's provides a wide variety of benefits to the community. These services and donations account for a measurable portion of Children's costs and serve to promote healthy lifestyles, community development, health education, and affordable access to care. Included in these community benefits are the costs of charity care. Children's provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because Children's does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges forgone for services provided under Children's charity care policy was $4,795 and $4,233 for the years ended December 31, 2023 and 2022, respectively. Total direct and indirect costs related to these forgone charges were $1,964 and $1,699, respectively, based on an average ratio of cost to gross charges.

(p) Other Revenue

COVID-19 Pandemic Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic, including in Minnesota, where a series of executive orders suspended nonemergent and elective surgical procedures for a period of time. These executive orders combined with CDC recommended community mitigation strategies such as social distancing, wearing face coverings, and virtual schooling led to a significant reduction in patient volumes and related revenues. As restrictions were eased in the latter half of 2020 and into 2021, volumes and related patient service revenue gradually improved. In 2023, Children's has continued to respond to the evolving nature of the pandemic by following CDC recommended mitigation strategies and state and local government orders.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted into law, which provided significant funding to healthcare providers and hospital systems. The funding is intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and is not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. For the years ended December 31, 2023 and 2022, Children's received $0 and $11,740, respectively, in general Provider Relief Fund distributions, as provided for under the CARES Act. In addition, for the years ended December 31, 2023 and 2022, Children's received $3,011 and $499, respectively, in other federal and state funding as a result of other stimulus programs. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other revenue once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met.

Children's has been and will continue to monitor compliance with the terms and conditions of all federal and state funding received. If Children's is unable to attest to or comply with the current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

For the years ended December 31, 2023 and 2022, Children's also recorded $0 and $998, respectively, in relief from the Emergency Unemployment Relief for Governmental Entities and Nonprofit Organization section of the CARES Act as other revenue.

In summary, for the years ended December 31, 2023 and 2022, all sources of COVID-19 funding yielded $4,011 and $15,274, respectively, in revenues recognized as other revenue in the accompanying consolidated statements of operations and changes in net assets.

Other Revenue

Other revenue unrelated to COVID-19 funding sources primarily includes revenue from cafeterias, parking ramps, medical education, pharmacies, grants, and other miscellaneous sources. Revenue is recognized upon delivery of the service or the product.

(q) Pledges Receivable

Children's records pledges receivable at the time an unconditional pledge agreement is signed. All pledges receivable are classified as net assets with donor restrictions based on the intent of the donor and represent pledges to be used primarily for program initiatives. Pledges due in more than one year are recorded at net present value of future cash flows, less an allowance for uncollectible pledges. A discount on each pledge is calculated using the risk-free interest rate at the time the pledge was made and for the duration of the pledge.

Pledges receivable at December 31, 2023 and 2022 were as follows:

		2023	2022
Pledges due:			
In less than one year	$	3,815	4,506
In one to five years		5,536	8,271
More than five years		359	395
Total pledges due		9,710	13,172
Less discount		(212)	(355)
Less allowance for uncollectible pledges		(471)	(477)
Pledges receivable – net	$	9,027	12,340
Classified as:			
Prepaid expenses and other current assets	$	3,633	4,348
Other assets		5,394	7,992
Pledges receivable – net	$	9,027	12,340

(r) Concentration of Risk

At December 31, 2023, Children's had 36.3% of its employee population covered under labor contracts. Of those employees, 74.4% are covered under labor contracts that expire the last day of May 2025, 25.1% are covered under labor contracts that expire the last day of February 2027, and 0.5% are covered under labor contracts that are set to expire the last day of April 2026. Work stoppages in the course of contract negotiations are possible, which could lead to the disruption of normal operations. Any resulting disruption could have an adverse impact on operating costs and/or patient service revenue.

(s) Excess (Deficiency) of Revenue over Expenses

Children's consolidated results of operations include excess (deficiency) revenue over expenses. Consistent with industry practice, changes in net assets without donor restrictions that are excluded from excess (deficiency) revenue over expense include net assets released from restriction for capital acquisitions and pension plan–related changes, the nonservice component of pension expense. Investment gains and losses on investments without donor restrictions, income and losses from investments accounted for under the equity method, unrealized gains or losses on investments, and the change in fair value of interest rate swaps are included in excess (deficiency) of revenues over expenses. Transactions related to net assets with donor restrictions are recorded as additions or deductions to net assets with donor restrictions and reflected in the consolidated statements of operations and changes in net assets.

(t) Derivative Instruments and Hedging Activities

From time to time, Children's makes use of certain exchange-traded options and futures contracts to manage its overall equity exposure, which is included in investments and recorded at fair value based on published market prices. Children's also makes use of interest rate swap agreements to hedge interest rate exposure on its variable rate debt. Interest rate swaps are recorded at fair value in the consolidated balance sheets representing the funds that would be paid or received if the swap agreements were terminated. Changes in the fair values are recorded as a component of nonoperating gains or losses in the consolidated statements of operations and changes in net assets. Fair value is determined based on the use of models that consider various assumptions, including present value of cash flows, yield curve structure, as well as other relevant economic measures, which are inputs that are classified as Level 2 in the valuation hierarchy (note 2). The net interest paid or received on interest rate swaps is recognized as financing costs in the consolidated statements of operations and changes in net assets.

(u) Liquidity and Availability

As of December 31, 2023, Children's has working capital of $130,237 and average days cash on hand of 378. As of December 31, 2022, Children's has working capital of $122,276 and average days cash on hand of 385.

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following:

		2023	2022
Financial assets at year-end:			
Cash and cash equivalents	$	66,391	33,688
Short-term investments		—	6,944
Short-term investments, board-designated		177	4
Funds held by trustee		6	6
Patient accounts receivable		192,954	175,126
Long-term investments		1,023,831	970,172
Board-designated investments		126,717	117,949
Total financial assets		1,410,076	1,303,889
Less amounts not available to be used within one year:			
Funds held by trustee		(6)	(6)
Long-term investments with certain contractual restrictions		(246,379)	(287,520)
Long-term investments with donor restrictions		(82,268)	(72,972)
Financial assets not available to be used within one year		(328,653)	(360,498)
Financial assets available to meet general expenditures within one year	$	1,081,423	943,391

As part of Children's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Additionally, Children's maintains a $60,000 line of credit with U.S. Bank, which is set to expire June 4, 2024. As of December 31, 2023 and 2022, no amounts were drawn on the line of credit.

As of December 31, 2023 and 2022, Children's was in compliance with all financial covenants required by its bond insurer, as more fully described in note 4.

(v) Leases

Children's follows ASC Topic 842, *Leases*, which requires lessees to recognize leases on the consolidated balance sheets and disclose key information about leasing arrangements. ASC Topic 842 establishes a right-of-use (ROU) model that requires a lessee to recognize an ROU asset and lease liability on the consolidated balance sheets for all leases with a term longer than 12 months. Leases are classified as financing or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statements of operations and changes in net assets. In applying the standard, Children's elected to adopt the package of practical expedients, including not reassessing past lease accounting, not separating lease components from nonlease components, and not reassessing previously capitalized initial direct costs.

Children's determines if an arrangement is or contains a lease at contract inception. Children's recognizes an ROU asset and a lease liability at the lease commencement date if the lease period exceeds one year. Leases less than one year are expensed monthly as incurred.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how Children's determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

ASC Topic 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Children's uses its incremental borrowing rate as the discount rate for the leases.

The lease term for all of Children's leases includes the noncancelable period of the lease plus any additional periods covered by either a Children's option to extend (or not to terminate) the lease that Children's is reasonably certain to exercise or an option to extend (or not to terminate) the lease controlled by the lessor.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments
- Variable lease payments that depend on an index or rate
- Amounts expected to be payable under a Children's provided residual value guarantee
- The exercise price of a Children's option to purchase the underlying asset if Children's is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Children's monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than $0. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

(Continued)

Operating lease ROU assets are presented as operating lease ROU assets on the consolidated balance sheets. The current portion and long-term portion of operating lease liabilities are presented separately as operating lease liabilities on the consolidated balance sheets.

(w) Emerging Accounting Concepts

Prior to July 1, 2023, Children's outstanding interest rate swaps and certain indebtedness were payable based on calculations using the London Interbank Offered Rate (LIBOR). The entities that regulate and supervise the publication of LIBOR announced their intent to cease publication of one-week and two-month U.S. Dollar LIBOR tenors after December 31, 2021 and all other U.S. Dollar LIBOR tenors after December 31, 2023

The International Swaps and Derivatives Association, Inc. (ISDA) published an analysis and determined a recommended conversion methodology between LIBOR and the Secured Overnight Finance Rate (SOFR), plus a spread of 11.448 bps. Children's adopted the ISDA IBOR Fallback Protocol to transition to SOFR. The transition occurred on July 1, 2023. Children's now uses the SOFR to calculate outstanding interest rate swaps.

(2) Financial Instruments, Risk Management Activities, and Fair Value

(a) Investments

The market value of Children's marketable debt, equity securities, and other investible securities at December 31, 2023 and 2022 is shown below:

		2023	2022
Fixed income securities	$	239,910	233,715
Corporate equities		182,272	174,561
Foreign investments		154,198	164,708
Investments measured at net asset value		569,037	517,343
Perpetual trusts held by others		4,286	3,928
Interest and dividends receivable		1,028	820
Total	$	1,150,731	1,095,075

		2023	2022
Investments are reported as:			
Short-term investments	$	—	6,944
Short-term investments, board-designated		177	4
Funds held by trustee		6	6
Long-term investments		1,023,831	970,172
Board-designated investments		126,717	117,949
Total	$	1,150,731	1,095,075

Classification of marketable securities as current or noncurrent is dependent on their availability for current operations. Availability for current operations is determined by management intention, investment maturity date, and liquidity.

As of December 31, 2023 and 2022, the following schedule summarizes the investment gains (losses) and its classification in the consolidated statements of operations and changes in net assets:

		2023	2022
Investment earnings in net assets without donor restrictions:			
Interest and dividend income	$	37,768	37,730
Net realized gains (losses) on investments		3,683	(27,771)
Net unrealized gains (losses) on investments		72,328	(129,439)
Total		113,779	(119,480)
Investment earnings in net assets with donor restrictions:			
Interest and dividend income		2,533	2,471
Net realized gains (losses) on investments		124	(1,802)
Net unrealized gains (losses) on investments		4,665	(8,112)
Total		7,322	(7,443)
Total investment gains (losses)	$	121,101	(126,923)
Reported within:			
Other operating revenue (losses)	$	654	(449)
Investment income and realized gains		40,797	10,408
Net unrealized gains (losses) on investments		72,328	(129,439)
Changes in net assets with donor restrictions		7,322	(7,443)
Total investment gains (losses)	$	121,101	(126,923)

Children's periodically has investment strategies that use derivative instruments like swaps, swaptions, futures, and options contracts, which are within its investment policies. These derivative positions are not designated as hedges for accounting purposes. The changes in fair market value of these instruments are recorded as investment gains (losses) in the consolidated statements of operations and changes in net assets.

(b) Risk Management

Children's is exposed to interest rate risk with its variable rate debt structure. To manage these risks, Children's has entered into certain fixed payor swap agreements that hedge a portion of its variable interest rate risk. Generally, under these swaps, Children's agrees with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on notional principal amounts. Swap valuations are derived from the SOFR swap curve and fluctuate with directional or yield curve changes in that market.

(c) Interest Rate Swaps

At December 31, 2019, Children's had four fixed payer interest rate swap agreements with Piper Jaffrey Financial Products Inc., which hedged the variable interest rate exposure associated with certain variable rate debt. With the January 15, 2020 refinancing of the series 2004A and 2004B bonds, the associated swaps were terminated. Only the interest rate swaps associated with the Series 2020A Bonds remain outstanding at December 31, 2023 (note 4).

Children's records changes in the fair values of the interest rate swaps as a component of nonoperating gains (losses) in the consolidated statements of operations and changes in net assets. Children's has elected to not apply hedge accounting to these swap agreements. The fair values of the interest rate swaps are included on the face of the consolidated balance sheets and were a liability of $6,222 and $6,569 as of December 31, 2023 and 2022, respectively. This liability would have to be paid if the swap agreements were terminated. The change in fair value of the interest rate swaps was $347 and $13,040 for the years ended December 31, 2023 and 2022, respectively. Children's recognized $45 and $1,974 as interest costs in financing costs expense related to these swap agreements for the years ended December 31, 2023 and 2022, respectively.

On October 23, 2020, Children's entered into amendments to the outstanding fixed payer interest rate swap agreements associated with the Series 2007A1 Bonds and Series 2007A2 Bonds that were redeemed on that date (note 4). Pursuant to these amendments, the insurance policy in place with Assured Guaranty (formerly Financial Guaranty Corporation) that guaranteed swap interest payments owed by Children's was terminated. The swap contracts with the counterparty, Morgan Stanley, were amended to require posting by Children's of cash collateral in specified amounts if the bond rating of Children's is downgraded below its current ratings of AA- from S&P Global.

The notional amounts and interest rates of the interest rate swaps at December 31, 2023 and 2022 are as follows:

Swap agreement		Fair value	Change in fair value *	Current notional amount	Rate paid	Rate received
As of December 31, 2023:						
2007A1 (2020A) *	$	(3,112)	172	38,800	3.518 %	3.438 %
2007A2 (2020A) *		(3,110)	175	38,800	3.518	3.437
	$	(6,222)	347	77,600		
As of December 31, 2022:						
2007A1 (2020A) *	$	(3,284)	6,518	39,975	3.518 %	1.239 %
2007A2 (2020A) *		(3,285)	6,522	40,000	3.518	1.246
	$	(6,569)	13,040	79,975		

* The 2007A1 and 2007A2 swaps remain outstanding following the refinancing of the 2007A bonds with the proceeds of the Series 2020A Bonds, and are identified as "qualified hedges" with respect to the Series 2020A Bonds.

Children's has credit risk in the event of nonperformance by the counterparty in the interest rate swap agreements.

(d) Fair Value of Financial Instruments

Children's values its financial assets and liabilities in accordance with the accounting guidance that establishes a three-tier fair value hierarchy. Level 1 provides the most reliable measure of fair value while Level 3 generally requires significant management judgment. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. Three levels are defined as follows:

Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

Level 2 – Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets, quoted prices for identical assets or liabilities exchanged in inactive markets, or other inputs that are considered in fair value determinations of assets or liabilities.

Level 3 – Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date.

(Continued)

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2023 and 2022 are summarized in the following tables by type of inputs applicable to the fair value measurements:

		Fair value			
		Level 1	Level 2	Level 3	Total
As of December 31, 2023:					
Cash and cash equivalents	$	66,391	—	—	66,391
Investments:					
Fixed-income securities:					
Money market and short-term bond funds		2,602	36,119	—	38,721
U.S. gov't and U.S. gov't agencies obligations		—	4,517	—	4,517
Municipal bond fund		7,659	—	—	7,659
Closed-end bond funds		—	137,535	—	137,535
Mortgage-backed securities		—	878	—	878
Investment grade corporate bond funds		—	14,736	—	14,736
REIT and real estate loan portfolio		—	27,451	8,413	35,864
Total fixed-income securities		10,261	221,236	8,413	239,910
Corporate equities:					
Large cap		32,199	—	—	32,199
Mid cap		48,403	—	—	48,403
Small cap		43,734	—	—	43,734
Closed-end equity funds		—	52,096	—	52,096
Equity index funds		—	5,840	—	5,840
Total corporate equities		124,336	57,936	—	182,272
Foreign investments:					
Foreign bonds		—	29,231	—	29,231
Foreign equities		118,030	2,953	—	120,983
Foreign closed-end equity funds		—	3,984	—	3,984
Total foreign investments		118,030	36,168	—	154,198
Total investments measured at net asset value*					569,037
Perpetual trusts held by others		—	4,286	—	4,286
Interest and dividends receivable		1,028	—	—	1,028
Total investments	$	253,655	319,626	8,413	1,150,731
Fair value of interest rate swaps liability	$	—	6,222	—	6,222
Deferred compensation – other assets	$	9,731	—	—	9,731

		Fair value			
		Level 1	**Level 2**	**Level 3**	**Total**
As of December 31, 2022:					
Cash and cash equivalents	$	33,688	—	—	33,688
Investments:					
Fixed-income securities:					
Money market and short-term bond funds		1,302	55,524	—	56,826
U.S. gov't and U.S. gov't agencies obligations		—	987	—	987
Municipal bond fund		19	—	—	19
Closed-end bond funds		—	119,776	—	119,776
Mortgage-backed securities		—	2	—	2
Investment grade corporate bond funds		—	3,395	—	3,395
REIT and real estate loan portfolio		—	42,800	8,910	51,710
Private convertible note		—	—	1,000	1,000
Total fixed-income securities		1,321	222,484	9,910	233,715
Corporate equities:					
Large cap		40,439	—	—	40,439
Mid cap		30,424	—	—	30,424
Small cap		39,744	—	—	39,744
Closed-end equity funds		—	55,870	—	55,870
Equity futures		381	—	—	381
Equity index funds		—	7,703	—	7,703
Total corporate equities		110,988	63,573	—	174,561
Foreign investments:					
Foreign bonds		—	15,494		15,494
Foreign equities		109,703	30,675	—	140,378
Foreign closed-end equity funds		—	8,836		8,836
Total foreign investments		109,703	55,005	—	164,708
Total investments measured at net asset value*		—	—	—	517,343
Perpetual trusts held by others		—	3,928	—	3,928
Interest and dividends receivable		820	—	—	820
Total investments	$	222,832	344,990	9,910	1,095,075
Fair value of interest rate swaps liability	$	—	6,569	—	6,569
Deferred compensation – other assets	$	8,861	—	—	8,861

* Investments are measured at net asset value and included only for reconciliation purposes.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Level 2 and Level 3 valuation methodologies are listed below.

For certain investments, Children's utilizes net asset value as a practical expedient to fair value. Investments measured at net asset value at December 31, 2023 and 2022 are summarized in the following tables:

	Net asset value	Redemption frequency	Redemption notice	Unfunded commitments
As of December 31, 2023:				
Commingled funds (a)	$ 51,159	Monthly	Monthly	$ —
Limited partnerships (b):				
Private credit	78,470	None	None	25,444
Private credit	37,974	Monthly	30 days notice	12,500
Private credit	3,743	Within 12 months	90 days notice	—
Private equity	155,265	None	None	92,121
Multi-strategy mandate hedge fund (c)	28,544	Semi-annual	30 days notice	—
Multi-strategy mandate hedge fund (c)	136,875	Quarterly	30 days notice	—
Multi-strategy mandate hedge fund (c)	69,546	Monthly	10 days notice	—
Targeted strategy (d)	7,461	Quarterly	90 days notice	—
	$ 569,037			

	Net asset value	Redemption frequency	Redemption notice	Unfunded commitments
As of December 31, 2022:				
Commingled funds (a)	$ 46,711	Monthly	Monthly	$ —
Limited partnerships (b):				
Private credit	99,463	None	None	13,357
Private credit	24,676	Semi-annual	90 days notice	—
Private credit	6,000	Within 12 months	None	—
Private equity	136,587	None	None	118,818
Multi-strategy mandate hedge fund (c)	68,699	Monthly	10 Days	—
Multi-strategy mandate hedge fund (c)	48,764	Monthly	Monthly	—
Targeted strategy (d)	8,105	None	None	—
Targeted strategy (d)	78,338	Quarterly	Quarterly	23,216
	$ 517,343			

(a) Commingled fund investments – This category includes investments in portfolios that may not be sold to investors other than "accredited investors" within the meaning of Regulation D under the Securities Act of 1933 (Securities Act), unless sold pursuant to another available exemption from the Securities Act. The price of these funds' shares is based on the portfolio's net asset value. The net asset value is determined by dividing the total value of the portfolio's investments and other assets, less any liabilities, by the total number of shares outstanding. For purposes of calculating net asset value, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from quotation reporting systems, established market makers, or pricing services.

(b) Limited partnership investments – This category includes investments in private market funds, generally through limited partnerships, that invest in private companies, private debt, intellectual property, structured products, and special situations. The fair value of these investments has been estimated using the percentage share of ownership interest in partner's capital. Distributions from each fund are received when the underlying investments in the funds create distributable cash flow and when underlying investments are liquidated. It is estimated that the underlying assets of these funds will be liquidated over the next 1 to 15 years.

(c) Multi-strategy mandate hedge funds – This category includes limited partnerships with monthly or quarterly liquidity that have broad investment mandates across geographic, public and private markets, and equity or fixed income markets.

(d) Targeted strategy – This category includes limited partnerships with monthly or quarterly liquidity that have a specific strategy within a specific market.

Children's made no level transfers during 2023 or 2022.

(3) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2023 and 2022 consisted of the following:

		2023	2022
Land	$	26,066	18,847
Buildings and building improvements		525,269	503,788
Furniture, fixtures, and equipment		385,454	336,103
Construction in progress		1,243	19,311
Land, buildings, and equipment – gross		938,032	878,049
Less accumulated depreciation		(637,135)	(590,478)
Land, buildings, and equipment – net	$	300,897	287,571

The construction in progress at December 31, 2023 includes various building improvements that have been received but not yet put into service. The construction in progress at December 31, 2022 related to various building improvements, software implementation costs incurred, and medical equipment that had been received but not yet put into service, among various other capital projects and initiatives.

There was no interest capitalized on construction for the years ended December 31, 2023 or 2022.

(Continued)

Depreciation expense for the years ended December 31, 2023 and 2022 was $47,566 and $41,070, respectively.

(4) Long-Term Debt

Long-term debt at December 31, 2023 and 2022 consisted of the following:

		2023	2022
Series 2020 taxable bonds, fixed interest rate of 3.448%, due in installments through August 15, 2049	$	214,095	214,095
Health Care Revenue Bond, Series 2020A, interest rate at a variable rate, due through August 15, 2037 (average of 4.7% for 2023; 2.0% for 2022)		77,600	79,975
Total long-term debt		291,695	294,070
Less:			
Unamortized bond premiums and discounts		(1,171)	(1,216)
Unamortized bond issuance costs		(2,546)	(2,657)
Current maturities		(2,289)	(2,264)
Long-term portion	$	285,689	287,933

On January 15, 2020, Children's issued $214,095 of Taxable Bonds, Series 2020 (Series 2020 Bonds), due August 15, 2049, bearing a fixed interest rate of 3.448%. The proceeds of the Series 2020 Bonds were applied, in part, to refund the following outstanding bonds issued by the City of Minneapolis, Minnesota and the Housing and Redevelopment Authority of the City of Saint Paul, acting jointly: (i) $10,000 outstanding aggregate principal amount of Health Care Revenue Bonds (Children's Health Care), Series 1995B; (ii) $17,025 outstanding aggregate principal amount of Variable Rate Revenue Bonds (Children's Hospitals and Clinics), Series 2004A; (iii) $15,850 outstanding aggregate principal amount of Health Care Facilities Revenue Bonds (Children's Hospitals and Clinics), Series 2004A-1; (iv) $19,500 outstanding aggregate principal amount of Variable Rate Revenue Bonds (Children's Hospitals and Clinics), Series 2004B; and (v) $26,295 outstanding aggregate principal amount of Health Care Facilities Revenue Bonds (Children's Health Care), Series 2010A. A remaining balance of approximately $125,425 was made available for strategic investments and other general corporate purposes, including payment of costs of issuance of the Series 2020 Bonds and the cost of retiring the fixed payor swap arrangements related to the Series 2004A and B Bonds.

On October 23, 2020, the City of Minneapolis and the Housing and Redevelopment Authority of the City of Saint Paul jointly issued an $84,560 million Health Care Facilities Variable Rate Revenue Refunding Bond (Children's Health Care), Series 2020A pursuant to an Indenture of Trust, dated as of October 1, 2020, between the Issuer and U.S. Bank National Association, as trustee (the Indenture). The proceeds of the Series 2020A Bonds are subject to a Loan Agreement, dated as of October 1, 2020, between the Issuer and Children's, with the proceeds applied to redeem in full the Issuer's Health Care Facilities Revenue Bonds (Children's Hospitals and Clinics of Minnesota), Series 2007A. The Series 2020A Bonds were issued in a private placement transaction to Old National Bank, a national banking association, and are a tax-exempt obligation. The 2020A Bonds are secured by a security interest in the unrestricted receivables of the Obligated Group, as defined under the Master Trust Indenture. The Series 2020A Bonds require amortization of principal on the same terms as applied to the Series 2007A Bonds. The Series 2020A Bonds bear interest at a variable rate based on one-month SOFR and are subject to mandatory purchase on October 23, 2025. Old National Bank has the right to waive the mandatory purchase date upon request by Children's. If Old National Bank chooses not to waive the mandatory purchase date, and the Series 2020A Bonds were not remarketed, the debt would become due on that date. The Series 2020A Bonds are subject to optional redemption in whole or, with the consent of the holder, in part, upon election by Children's at a price of par plus interest accrued to the date of repayment.

The Series 2020 bonds were issued taxable bonds. The Series 2020A bonds were issued jointly through the conduit organizations of the City of Minneapolis, Minnesota and the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota on behalf of the Obligated Group, pursuant to the Master Trust Indenture. The bonds are secured by a security interest in the unrestricted receivables of the Obligated Group as defined under the Master Trust Indenture.

The redemption of the Series 2007A bonds and termination of Assured Guaranty's insurance policy supporting the related swap obligations resulted in the elimination of certain financial covenants required by the bond insurer. The Obligated Group was in compliance with all covenants at December 31, 2023 and 2022.

Aggregate annual maturities of long-term debt for each of the five years as of December 31, 2023 and thereafter are as follows:

Year ending December 31:		
2024	$	2,400
2025		2,625
2026		4,225
2027		4,475
2028		4,600
Thereafter		273,370
Total	$	291,695

(5) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and/or periods at December 31, 2023 and 2022:

		2023	2022
Donor-restricted endowments subject to spending policy and appropriation to support the following purposes:			
Program activities	$	32,015	29,122
Health education and research		23,809	21,839
Community service		3,750	3,469
		59,574	54,430
Perpetual trusts, distributions available to support the following purposes:			
Program activities		2,422	2,214
Health education and research		1,864	1,714
		4,286	3,928
Subject to expenditure for specified purpose:			
Program activities		17,962	17,849
Purchases of buildings and equipment		3,657	5,339
Health education and research		2,372	1,347
Community service		747	914
Total		24,738	25,449
Total net assets with donor restrictions	$	88,598	83,807

Children’s governing board has designated net assets without donor restrictions for the following purposes:

		2023	2022
Quasi-endowment, subject to spending policy and appropriation to support the following purposes:			
Program activities	$	126,894	117,949
	$	126,894	117,949

Net assets released from restrictions used for operations are included in other unrestricted revenue in the consolidated statements of operations and changes in net assets. Net assets as of December 31, 2023 and 2022 were released from donor restrictions by incurring expenses or by making capital expenditures satisfying the restricted purposes of the following:

		2023	2022
Department uses	$	10,013	8,476
Purchases of buildings and equipment		1,804	805
Health education and research		526	1,389
Community service		1,442	1,903
Total	$	13,785	12,573

(a) Interpretation of Relevant Law

Children's has interpreted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring long-term management to maintain the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Children's classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Children's in a manner consistent with donor intent and the standard of prudence prescribed by UPMIFA. At December 31, 2023 and 2022, included within endowment net assets with donor restrictions are accumulated earnings of $25,414 and $20,431, respectively.

		Without donor restrictions	With donor restrictions	Total
Year ended December 31, 2023:				
Endowment net assets – beginning of year	$	117,949	58,327	176,276
Investment returns:				
Investment gains		5,207	2,774	7,981
Net unrealized losses		8,638	4,191	12,829
Change in value of perpetual trusts held by others		—	357	357
Total investment returns		13,845	7,322	21,167

		Without donor restrictions	With donor restrictions	Total
Contributions	$	—	485	485
Appropriations of endowment assets for expenditure		(4,900)	(2,303)	(7,203)
Endowment net assets – end of year	$	126,894	63,831	190,725

		Without donor restrictions	With donor restrictions	Total
Year ended December 31, 2022:				
Endowment net assets – beginning of year	$	136,667	67,160	203,827
Investment returns:				
Investment gains		1,720	894	2,614
Net unrealized losses		(15,294)	(7,196)	(22,490)
Change in value of perpetual trusts held by others		—	(1,141)	(1,141)
Total investment returns		(13,574)	(7,443)	(21,017)
Contributions		—	908	908
Appropriations of endowment assets for expenditure		(5,144)	(2,298)	(7,442)
Endowment net assets – end of year	$	117,949	58,327	176,276

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or accounting guidance requires Children's to retain as a fund of perpetual duration. Deficiencies of this nature are funded by unrestricted net assets until the fair value of the assets returns to the required perpetual level. There were no deficiencies as of December 31, 2023 and 2022.

(c) Return Objectives and Risk Parameters

Children's has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. In the current investment environment, Children's expects its endowment funds to provide an annualized rate of return greater than its spending rate. Actual returns in any given year may vary from this amount. In 2023 and 2022, the spending rate was 4% for both donor-restricted and board-designated funds.

(d) Strategies Employed for Achieving Objectives

To satisfy its rate-of-return objectives, Children's relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends).

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

Children's has a policy of appropriating the spending rate times the fund's three-year average balance in accordance with donor intent and restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus.

(6) Insurance

Children's has a wholly owned subsidiary, CHIN, which handles professional liability claims. CHIN is domiciled in the Cayman Islands. CHIN is funded through Children's operations. Premiums paid to the captive for the professional liability coverage during 2023 and 2022 were $6,413 and $3,952, respectively. CHIN insures Children's for hospital professional liability for $2,000 for each claim and $6,000 in the annual aggregate. In addition, Children's has purchased excess professional liability insurance for claims above the respective limits from commercial carriers in the amount of $35 million.

The consolidated financial statements of Children's include the investments held for professional liability claims, claims payments, and estimated professional liability reserves. The liability for losses and loss adjustment expenses (undiscounted) of $7,830 and $5,772 at December 31, 2023 and 2022, respectively, includes an amount determined from loss reports and individual cases and an amount, based on past experience and an actuarial report, for further development of reported losses. These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. Although management has made its best estimate of the liability for losses and loss adjustment expenses using the available information, ultimate settlement could vary significantly from such liability. Any adjustments to recorded liabilities will be reflected in the periods in which they become known.

Children's is self-insured for medical, dental, and workers' compensation claims and has recorded a liability for the estimated cost of claims incurred in accounts payable and accrued liabilities in the consolidated balance sheets. CHIN insures Children's for medical liability for individual claims between $250,000 and $800,000. Children's has purchased excess medical liability insurance for individual claims in excess of $800,000.

(7) Employee Benefit Plans

Children's has noncontract and various union-sponsored pension or retirement plans covering substantially all employees.

(a) Pension Plan

The Children's Health Care RSVP Retirement Plan (the Legacy Plan) was terminated on October 31, 2018. The Legacy Plan provided benefits to eligible noncontract employees based on final average salary and accumulated pension credits, which, in turn, were based on years of service. Benefit accruals under the Legacy Plan have been frozen since January 1, 2013.

A new plan was established, effective October 30, 2018, to assume Children's obligations under the Legacy Plan for certain specified participants. The new plan is called the Children's RSVP Retirement Plan II (the RSVP Plan II) and provides essentially the same benefits as were provided under the Legacy Plan to the individuals designated to participate in it. Children's determined who was eligible to participate in the RSVP Plan II based on certain criteria that it had established, including participant preference. The plan assets and liabilities of the individuals designated to participate in the RSVP Plan II have been transferred to the RSVP Plan II and are administered according to the terms of that plan.

In connection with the termination of the Legacy Plan, its assets were dispersed to participants as required by the plan document and applicable law. Accordingly, the accounts of participants under the terminating Legacy Plan were distributed to participants in that plan in the form of a lump-sum payment (subject to applicable rollover and distribution rules) or an annuity.

Total plan settlements were $0 and $1,967 for the years ended December 31, 2023 and 2022, respectively, which exceeded the aggregate of the plan's service and interest costs requiring the application of settlement accounting. Under settlement accounting, Children's recognized a loss of $0 and $35 for the years ended December 31, 2023 and 2022, respectively, which is included in nonservice component of pension expense within the consolidated statements of operations and changes in net assets.

The information for the RSVP II defined-benefit pension plan as of and for the years ended December 31, 2023 and 2022 is as follows:

		2023	2022
Change in benefit obligation:			
Obligation – beginning of year	$	22,404	29,245
Interest cost		1,125	761
Plan settlements		—	(1,967)
Actuarial (gain) loss		1,012	(4,919)
Benefit payments		(1,482)	(716)
Obligation – end of year	$	23,059	22,404

		2023	2022
Change in plan assets:			
Fair value of plan assets – beginning of year	$	24,140	28,800
Plan settlements		—	(1,967)
Benefit payments		(1,482)	(716)
Actual return on plan assets		1,157	(1,977)
Fair value of plan assets – end of year		23,815	24,140
Net amount recognized:			
Current portion (included in accrued salaries, wages, and benefits)		—	—
Long-term portion (included in other assets)		756	1,736
Long-term portion (included in other long-term liabilities)		—	—
Funded status – end of year		756	1,736
Accumulated benefit obligation	$	23,059	22,404

Components of net periodic benefit cost for the plan for 2023 and 2022 are as follows:

		2023	2022
Interest cost	$	1,125	761
Expected return on plan assets		(1,015)	(811)
Settlement loss		—	35
Amortization of loss		—	53
Net periodic pension cost	$	110	38

Components of RSVP plan related changes other than net periodic plan expense for 2023 and 2022 are as follows:

		2023	2022
Net (loss) gain arising during year	$	(871)	2,131
Amortization of loss		—	88
Total	$	(871)	2,219

(Continued)

Amount recognized in net assets without donor restrictions but not yet recognized as a component of net periodic benefit cost for the plan at December 31, 2023 and 2022 is as follows:

		2023	2022
Amortization of loss	$	(3,374)	(2,503)

Weighted average assumptions used to determine the benefit obligations and net periodic benefit costs at December 31, 2023 and 2022 are as follows:

	2023	2022
Discount rate – benefit obligation	5.14 %	5.43 %
Discount rate – net periodic benefit cost	5.43	2.78
Rate of compensation increase	N/A	N/A
Expected return on plan assets	4.20	3.00

Children’s pension plan asset allocation at December 31, 2023 and 2022 by asset category is as follows:

	Plan assets	
	2023	2022
Cash and cash equivalents	4 %	7 %
Fixed income investments	96	93
Total	100 %	100 %

The pension plan’s target asset allocation is approximately 100% fixed income.

Children’s pension plan investments measured at fair value on a recurring basis at December 31, 2023 and 2022 are summarized in the following tables by type of inputs applicable to the fair value measurements of the RSVP and RSVP II Plans:

	Fair value		
	Level 1	**Level 2**	**Total**
December 31, 2023:			
Cash, cash equivalents, and accrued interest	$ 912	—	912
Fixed income investments:			
Investment grade	—	5,867	5,867
Mortgage-backed securities	—	9,134	9,134
Closed-end bond funds	—	4,285	4,285
U.S. government agency and municipal issues	—	3,617	3,617
Total fixed income investments	—	22,903	22,903
Total pension plan investments	$ 912	22,903	23,815

	Fair value		
	Level 1	**Level 2**	**Total**
December 31, 2022:			
Cash, cash equivalents, and accrued interest	$ 1,755	—	1,755
Fixed income investments:			
Investment grade	—	5,508	5,508
Mortgage-backed securities	—	8,661	8,661
Closed-end bond funds	—	2,501	2,501
U.S. government agency and municipal issues	1,627	4,088	5,715
Total fixed income investments	1,627	20,758	22,385
Total pension plan investments	$ 3,382	20,758	24,140

See note 2 for discussion over the fair value hierarchy, fair value inputs, and valuation methodologies used at December 31, 2023 and 2022.

Children's made no transfers between levels during 2023 or 2022.

Benefits expected to be paid through the defined-benefit pension plans, by year, as of December 31, 2023 are as follows:

2024	$	1,962
2025		1,536
2026		1,888
2027		1,984
2028		1,397
Subsequent five years		7,084

Children's does not expect to make a contribution to the RSVP II Plan during 2024. The estimated net actuarial loss for the plan that will be amortized from unrestricted net assets into net periodic benefit cost during 2024 is $3.

The long-term rate of return on assets reflected in the 2023 expense was 4.2%. The rate is determined based on Children's asset allocation during 2023 of 4% cash and cash equivalents and 96% fixed income and an actuarial model that analyzes historical returns and projects a range of future annual returns. Annually, management reviews the actual long-term rate of return on assets, compares this return with the actuarial model of expected returns, and adjusts accordingly.

(b) Multiemployer Plans

Children's contributes to various union-sponsored multiemployer pension plans under the terms of collective bargaining agreements. These contributions are determined in accordance with the provisions of negotiated labor contracts and generally are based on salary and the number of hours worked. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If Children's chooses to stop participating in some of its multiemployer plans, Children's may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Children's participation in these plans for the year ended December 31, 2023 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number. The zone status is based on information that Children's received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plans are subject. There have been no significant changes that affect the comparability of 2023 and 2022 contributions.

Pension fund	EIN/ Pension plan number	Pension protection act zone status (a) January 1		FIP/RP status pending/ implemented	Contributions of Children's Plan year ended		Surcharge imposed	Expiration date of collective bargaining agreement
		2023	2022		2023	2022		
Twin City Hospitals – Minnesota Nurses Association Pension Plan	41-6184922/001	Green	Green	Implemented	$ 14,098	14,712	No	5/31/2025
Other funds	—	—	—	—	707	751	—	—
Total contributions					$ 14,805	15,463		

(a) The plan's funding level on January 1, 2023 is determined based on the actual December 31, 2022 asset values and projected liabilities as of January 1, 2023 that are a rollforward of liabilities from the previous valuation date of January 1, 2022, assuming no actuarial gains/losses occur during the period.

In January 2024, Children's contributed $13,564 to the Twin City Hospitals – Minnesota Nurses Association Pension Plan, which is Children's proportionate share of the minimum 2024 contribution requirement. Children's does not expect to make an additional contribution during 2024.

Children's was listed in the Twin City Hospitals Minnesota Nurses Association Pension Plan Form 5500 as providing more than 5% of the total contributions for the plan years ended December 31, 2023 and 2022. At the date the consolidated financial statements were issued, the Form 5500 was not available for the plan year ended in 2023.

(c) Postretirement Healthcare Plan

Children's extends health insurance coverage to nurses covered by the Minnesota Nurses Association labor contract who elect to retire and begin receiving pension benefits at age 55 or older. The postretirement healthcare benefit plans are unfunded. The accumulated postretirement benefit obligation and the amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2023 and 2022 are as follows:

		2023	2022
Change in benefit obligations:			
Obligation – beginning of year	$	2,985	3,639
Service cost		118	168
Interest cost		160	104
Net loss (gain)		(204)	(732)
Benefit payments		(222)	(194)
Obligation included in other long-term liabilities – end of year	$	2,837	2,985

For the 2023 postretirement benefit obligation, certain actuarial assumptions were changed from 2022, including the discount rate, healthcare cost trend rate, marriage assumptions, and expected claims and premiums. Children's recognizes these gains and losses in the year the assumptions are changed.

The discount rate used in determining the accrued postretirement liability was 5.05% for 2023 and 5.35% for 2022. For measurement purposes, a 7% annual rate increase in the cost of covered healthcare benefits was assumed for 2023; the rate was assumed to decrease by 0.25% per year for eight years beginning in 2027, reaching 5% in 2034 and thereafter.

(d) Defined-Contribution Plan

Children's has a defined-contribution plan, covering substantially all employees. Effective January 1, 2018, Children's adopted an IRS Safe Harbor plan whereby all employer contribution match is vested immediately. Deferral adjustments are a participant-directed activity. The amount expensed to the consolidated statements of operations and changes in net assets was $19,132 and $17,339 for the twelve months ended December 31, 2023 and 2022, respectively.

(e) Deferred Compensation Plans

Children's also maintains other nonqualified deferred compensation plans to provide supplemental retirement benefits for executive management and employed physicians. As of December 31, 2023, there were 16 executives and 177 employed physicians active in the plan. The liability for these plans at December 31, 2023 and 2022 was $8,731 and $7,124, respectively, of which $4,079 and $4,424 was included in other long-term liabilities and $4,652 and $2,700 was included in accrued salaries, wages, and benefits in the consolidated balance sheets.

(Continued)

(8) Functional Expenses

Children's provides general healthcare services to residents primarily within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2023 and 2022 are as follows:

		Year ended December 31, 2023			
		Program	G&A	Fundraising	Total
Salaries, wages, and employee benefits	$	603,773	81,405	3,764	688,942
Professional fees and purchased services		96,915	38,519	1,024	136,458
Supplies		134,537	1,070	51	135,658
Facilities		16,462	1,672	—	18,134
Depreciation and amortization		38,293	10,182	19	48,494
Financing costs		11,161	—	—	11,161
Health services taxes		28,022	—	—	28,022
Other		57,761	16,306	4,098	78,165
Total expenses	$	986,924	149,154	8,956	1,145,034

		Year ended December 31, 2022			
		Program	G&A	Fundraising	Total
Salaries, wages, and employee benefits	$	565,759	76,873	3,310	645,942
Professional fees and purchased services		84,223	32,531	826	117,580
Supplies		120,333	877	62	121,272
Facilities		15,650	1,756	—	17,406
Depreciation and amortization		32,448	9,482	27	41,957
Financing costs		10,998	—	—	10,998
Health services taxes		27,946	—	—	27,946
Other		44,176	11,362	3,674	59,212
Total expenses	$	901,533	132,881	7,899	1,042,313

(9) Income Taxes

The IRS has determined that Children's and its subsidiaries, except for CHN and CHME, which are taxable not-for-profit corporations under the Minnesota Not-for-profit Corporations Act, are exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code. For those tax-exempt organizations, Children's believes that it continues to meet the requirements of the IRC to sustain its tax-exempt status. In accordance with ASC Subtopic 740-10, *Income Taxes – Overall*, Children's recognizes the effect of income

(Continued)

tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Management determined there were no material income tax positions for the years ended December 31, 2023 or 2022. Children's is not subject to an income tax examination for years before 2020.

(10) Other Assets

Other assets for the years ended December 31, 2023 and 2022 consist of the following:

		2023	2022
Investments in unconsolidated joint ventures	$	59,747	49,770
Deferred compensation		8,975	7,124
RSVP Retirement Plan II		756	1,736
Foundation long-term pledges receivable – restricted		5,394	7,992
Other		14,032	15,061
Total other assets	$	88,904	81,683

Investments held under deferred compensation arrangements are considered Level 1 investments. Children's uses the equity method of accounting for joint ventures or investments in which Children's has determined that it has significant influence. The following table represents Children's investment in and share of net earnings of unconsolidated entities recorded under the equity method of accounting as of and for the years ended December 31:

	Percentage ownership	Equity investment 2023	Equity investment 2022	Share of net earnings (loss) 2023	Share of net earnings (loss) 2022
HealthEast Woodwinds Hospital Diagnostic Treatment Center	20 %	$ 12,612	10,597	1,816	427
Critical Care Services, Inc. (d/b/a Life Link III)	10	5,397	4,997	(100)	(162)
Health System Cooperative Laundries	6	835	773	62	(11)
Mother Baby Pavilion, LLC	50	18,053	19,200	(1,147)	(1,193)
		$ 36,897	35,567	631	(939)

Children's received $2,975 and $3,425 in distributions from joint ventures for the years ended December 31, 2023 and 2022. Children's paid $500 and $0 in cash infusions to joint ventures for the years ended December 31, 2023 and 2022.

The following table represents summarized financial information for unconsolidated entities recorded under the equity method of accounting as of and for the years ended December 31:

		Unaudited	
		2023	**2022**
Total assets	$	172,738	158,582
Total liabilities		54,715	53,083
Total net assets		118,023	105,499
Total revenue		206,557	188,735
Total operating expenses		197,846	187,876
Excess of revenues over expenses		8,711	859

Investments accounted for under the cost method were $22,850 and $14,203 at December 31, 2023 and 2022, respectively, and are recorded as investments in unconsolidated joint ventures in other assets.

(11) Commitments and Contingencies

(a) Litigation

Children's is a defendant in legal proceedings arising in the ordinary course of business. Although the outcome of these proceedings cannot presently be determined, in the opinion of management, disposition of these proceedings will not have a material adverse effect on the consolidated financial statements of Children's.

(b) Compliance with Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretations, as well as regulatory actions unknown and unasserted at this time. Government activity continues to focus on possible violations of regulations by healthcare providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue. Management believes that Children's compliance procedures lead to substantial compliance with current laws and regulations.

(c) Letter of Credit

Children's is required by the Minnesota Department of Commerce to maintain collateral for the purposes of funding the workers' compensation liabilities, which total $3,675. As of December 31, 2023, Children's has a surety bonds in the amount of $4,790 to meet this requirement.

(d) Other Contractual Commitments

Children's maintains various long-term, noncancelable contractual commitments with certain vendors for ongoing system maintenance and general business support. As of December 31, 2023 and 2022, commitments under these arrangements were $5,513 and $12,362, respectively.

(Continued)

(12) Other Long-Term Liabilities

Other long-term liabilities for the years ended December 31, 2023 and 2022 consist of the following:

		2023	2022
Other benefit plans		6,994	7,499
Self-insured reserves		8,605	6,845
Deferred revenue		4,320	4,157
Other		388	431
Total other long-term liabilities	$	20,307	18,932

(13) Leases

Children's leases certain space and equipment under noncancelable operating leases with varying terms. The space leases also require a payment of an allocated share of common operating costs.

The weighted average terms of operating leases were 7.2 years and 7.7 years for the years ended December 31, 2023 and 2022, respectively. The weighted average discount rate of operating leases was 2.9% and 2.5% for the years ended December 31, 2023 and 2022, respectively.

Children's incurred operating lease expense of $7,018 and $6,812 for the years ended December 31, 2023 and 2022, respectively. Operating cash flows from operating leases were $7,703 and $7,549 for the years ended December 31, 2023 and 2022, respectively. Sublease rental income was $1,711 and $2,122 for the years ended December 31, 2023 and 2022, respectively.

(Continued)

Payments on operating lease liabilities as of December 31, 2023 are as follows:

2024	$	6,872
2025		6,447
2026		5,384
2027		4,474
2028		3,669
Thereafter		12,894
Total future minimum lease payments		39,740
Less imputed interest		(3,634)
Total lease liabilities	$	36,106

Future minimum lease payments to be received as lessor under sublease arrangements as of December 31, 2023 are as follows:

2024	$	1,167
2025		698
2026		295
2027		292
2028		267
Thereafter		62
	$	2,781

ADDITIONAL INFORMATION

CHILDREN'S HEALTH CARE

Consolidating Balance Sheet Information

December 31, 2023

(In thousands)

Assets	Obligated group total	Children's Health Insurance Network, Ltd	Children's Health Network	Children's Home Medical Equipment	Eliminating entries	Consolidated total
Current assets:						
Cash and cash equivalents	$ 62,627	3,764	—	—	—	66,391
Short-term investments	—	—	—	—	—	—
Short-term investments, board-designated	177	—	—	—	—	177
Funds held by trustee	6	—	—	—	—	6
Patient accounts receivable	192,954	—	—	—	—	192,954
Prepaid expenses and other current assets	61,835	2,574	185	—	(11,442)	53,152
Total current assets	317,599	6,338	185	—	(11,442)	312,680
Intercompany accounts	3,427	—	4,285	—	(7,712)	—
Long-term investments	1,009,722	14,109	—	—	—	1,023,831
Board-designated investments	126,717	—	—	—	—	126,717
Operating lease right-of-use assets, net	26,267	—	—	—	—	26,267
Other assets	89,154	—	—	—	(250)	88,904
Land, buildings, and equipment – net	300,890	—	—	7	—	300,897
Total	$ 1,873,776	20,447	4,470	7	(19,404)	1,879,296
Liabilities and Net Assets						
Current liabilities:						
Current maturities of long-term debt	$ 2,289	—	—	—	—	2,289
Current portion of operating lease liabilities	5,945	—	—	—	—	5,945
Accounts payable and accrued expenses	93,669	9,192	58	—	(11,442)	91,477
Accrued salaries, wages, and benefits	64,953	—	—	—	—	64,953
Other current liabilities	16,091	1,138	550	—	—	17,779
Total current liabilities	182,947	10,330	608	—	(11,442)	182,443
Intercompany accounts	6,996	—	—	716	(7,712)	—
Fair value of interest rate swaps	6,222	—	—	—	—	6,222
Other long-term liabilities	13,615	6,692	—	—	—	20,307
Long-term portion of operating lease liabilities	30,161	—	—	—	—	30,161
Long-term debt – excluding current maturities	285,689	—	—	—	—	285,689
Total liabilities	525,630	17,022	608	716	(19,154)	524,822
Net assets:						
Net assets without donor restrictions	1,259,548	3,425	3,862	(709)	(250)	1,265,876
Net assets with donor restrictions	88,598	—	—	—	—	88,598
Total net assets	1,348,146	3,425	3,862	(709)	(250)	1,354,474
Total	$ 1,873,776	20,447	4,470	7	(19,404)	1,879,296

See accompanying notes to consolidating schedules of financial statements information.

CHILDREN'S HEALTH CARE

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2023

(In thousands)

	Obligated group total	Children's Health Insurance Network, Ltd	Children's Health Network	Children's Home Medical Equipment	Eliminating entries	Consolidated total
Revenue:						
Patient service revenue	$ 1,057,032	—	—	—	550	1,057,582
Net assets released from restrictions for operations	11,981	—	—	—	—	11,981
Other	40,841	6,413	11,426	—	(11,049)	47,631
Total revenue	1,109,854	6,413	11,426	—	(10,499)	1,117,194
Expenses:						
Salaries, wages, and employee benefits	687,208	—	5,565	—	(3,831)	688,942
Professional fees and purchased services	136,690	246	275	2	(755)	136,458
Supplies	135,645	—	13	—	—	135,658
Facilities	18,065	—	69	—	—	18,134
Depreciation and amortization	48,493	—	—	1	—	48,494
Financing costs	11,401	—	—	—	(240)	11,161
Health services taxes	28,006	—	16	—	—	28,022
Other	72,366	6,337	5,375	—	(5,913)	78,165
Total expenses	1,137,874	6,583	11,313	3	(10,739)	1,145,034
Operating (loss) income	(28,020)	(170)	113	(3)	240	(27,840)
Nonoperating gains (losses):						
Investment income and realized gains (losses)	40,796	1	240	—	(240)	40,797
Income on investments accounted for under the equity method	631	—	—	—	—	631
Net unrealized gains on investments	70,944	1,384	—	—	—	72,328
Change in fair value of interest rate swaps	347	—	—	—	—	347
Nonservice component of pension expense	82	—	—	—	—	82
Total nonoperating gains (losses)	112,800	1,385	240	—	(240)	114,185
Excess (deficiency) of revenue over expenses	84,780	1,215	353	(3)	—	86,345
Net assets without donor restrictions:						
Net assets released from restrictions – capital acquisitions	1,804	—	—	—	—	1,804
RSVP plan–related changes other than net periodic plan expense	(871)	—	—	—	—	(871)
Increase (decrease) in net assets without donor restrictions	85,713	1,215	353	(3)	—	87,278
Net assets with donor restrictions:						
Contributions	11,254	—	—	—	—	11,254
Investment income	2,774	—	—	—	—	2,774
Net unrealized gains on investments	4,191	—	—	—	—	4,191
Net assets released from restrictions – operations	(11,981)	—	—	—	—	(11,981)
Net assets released from restrictions – capital acquisitions	(1,804)	—	—	—	—	(1,804)
Change in value of perpetual trusts held by others	357	—	—	—	—	357
Increase in net assets with donor restrictions	4,791	—	—	—	—	4,791
Increase (decrease) in net assets	90,504	1,215	353	(3)	—	92,069
Net assets – beginning of year	1,257,643	2,209	3,509	(706)	(250)	1,262,405
Net assets – end of year	$ 1,348,147	3,424	3,862	(709)	(250)	1,354,474

See accompanying notes to consolidating schedules of financial statements information.

(1) Obligated Group

Children’s Health Care (Children’s) master indenture provides for the creation of a group of entities (Obligated Group), the members of which are jointly and severally obligated for the payment of debt services on all obligations issued thereunder. The Obligated Group currently consists of Children’s – Minneapolis and Children’s – St. Paul; Children’s Clinic Network, a Minnesota not-for-profit corporation that is a wholly controlled affiliate; Children’s Health Care Services, Inc., d/b/a Children’s Minnetonka, a Minnesota not-for-profit corporation that is a wholly controlled affiliate; and Children’s Health Care Foundation, d/b/a Children’s Foundation, a wholly controlled affiliate that performs fundraising functions and endowment management. Children’s Health Insurance Network, Ltd., a Cayman Island–domiciled insurance entity and Children’s Minnesota Home Medical Equipment (CHME), which provides home medical equipment services, are wholly controlled affiliates of Children’s and are not currently members of the Obligated Group. Children’s is also the sole corporate and nonvoting member of Children’s Health Network (CHN), a clinically integrated network created by Children’s to be a leading advocate for providing the highest quality of care for children and their families. CHN is not currently a member of the Obligated Group.

(2) Basis of Reporting

The consolidating schedule of balance sheet information and the consolidating schedule of statement of operations and changes in net assets information are presented for additional analysis of the sources and uses of funds within the consolidated amounts. All intercompany balances and transactions have been eliminated for consolidation purposes.