



CHILDREN'S HEALTH CARE

Consolidated Financial Statements

December 31, 2024 and 2023

(With Independent Auditors' Report Thereon)

CHILDREN'S HEALTH CARE

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KPMG LLP
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Minneapolis, MN 55401

Independent Auditors' Report

The Board of Directors
Children's Health Care:

Opinion

We have audited the consolidated financial statements of Children's Health Care (Children's), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, 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 Children's as of December 31, 2024 and 2023, and the results of its operations 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 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 Children'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.



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 Children'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 Children'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 2024 supplemental consolidating financial information on pages 44 to 46 is 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 18, 2025

CHILDREN'S HEALTH CARE

Consolidated Balance Sheets

December 31, 2024 and 2023

(In thousands)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 5,310	66,391
Short-term investments	8,758	—
Short-term investments, board-designated	55	177
Funds held by trustee	6	6
Patient accounts receivable	215,286	192,954
Prepaid expenses and other current assets	51,157	53,152
Total current assets	280,572	312,680
Long-term investments	1,102,462	1,023,831
Board-designated investments	130,598	126,717
Operating lease right-of-use assets, net	24,908	26,267
Other assets	87,959	88,904
Land, buildings, and equipment – net	299,665	300,897
Total	\$ 1,926,164	1,879,296
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt	\$ 74,674	2,289
Current portion of operating lease liabilities	6,128	5,945
Accounts payable and accrued expenses	60,513	91,477
Accrued salaries, wages, and benefits	56,220	64,953
Other current liabilities	15,171	17,779
Total current liabilities	212,706	182,443
Fair value of interest rate swaps	—	6,222
Other long-term liabilities	22,253	20,307
Long-term portion of operating lease liabilities	27,718	30,161
Long-term debt – excluding current maturities	210,971	285,689
Total liabilities	473,648	524,822
Net assets:		
Net assets without donor restrictions	1,358,496	1,265,876
Net assets with donor restrictions	94,020	88,598
Total net assets	1,452,516	1,354,474
Total	\$ 1,926,164	1,879,296

See accompanying notes to consolidated financial statements.

CHILDREN'S HEALTH CARE

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2024 and 2023

(In thousands)

	2024	2023
Revenue:		
Patient service revenue	\$ 1,100,159	1,057,582
Net assets released from restrictions for operations	11,823	11,981
Other	48,646	47,631
Total revenue	1,160,628	1,117,194
Expenses:		
Salaries, wages, and employee benefits	711,144	688,942
Professional fees and purchased services	137,939	136,458
Supplies	142,317	135,658
Facilities	18,141	18,134
Depreciation and amortization	36,558	48,494
Financing costs	11,120	11,161
Health services taxes	32,512	28,022
Other	73,899	78,165
Total expenses	1,163,630	1,145,034
Operating loss	(3,002)	(27,840)
Nonoperating gains:		
Investment income and realized gains	62,003	40,797
Income on investments accounted for under the equity method	2,275	631
Net unrealized gains on investments	28,488	72,328
Change in fair value of interest rate swaps	1,445	347
Nonservice component of pension expense	23	82
Total nonoperating gains	94,234	114,185
Excess of revenues over expenses	91,232	86,345

CHILDREN'S HEALTH CARE

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

Years ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Net assets without donor restrictions:		
Excess of revenue over expenses	\$ 91,232	86,345
Net assets released from restrictions – capital acquisitions	1,122	1,804
RSVP plan-related changes other than net periodic plan expense and other	266	(871)
Increase in net assets without donor restrictions	92,620	87,278
Net assets with donor restrictions:		
Contributions	12,241	11,254
Investment income	4,186	2,774
Net unrealized gains on investments	1,698	4,191
Net assets released from restrictions – operations	(11,823)	(11,981)
Net assets released from restrictions – capital acquisitions	(1,122)	(1,804)
Change in value of perpetual trusts held by others	242	357
Increase in net assets with donor restrictions	5,422	4,791
Increase in net assets	98,042	92,069
Net assets – beginning of year	1,354,474	1,262,405
Net assets – end of year	\$ 1,452,516	1,354,474

See accompanying notes to consolidated financial statements.

CHILDREN'S HEALTH CARE

Consolidated Statements of Cash Flows

Years ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Cash flows from operating activities:		
Increase in net assets	\$ 98,042	92,069
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	36,558	48,494
Net unrealized gains on investments	(30,591)	(76,993)
Net realized gains on investments	(38,947)	(3,807)
RSVP plan-related changes other than net periodic expense	(268)	871
Change in fair value of interest rate swaps	(1,445)	(347)
Income on investments accounted for under the equity method	(2,275)	(631)
Other	(623)	(1,864)
Changes in assets and liabilities:		
Patient accounts receivable	(22,332)	(17,828)
Prepaid expenses and other current assets	1,994	56
Other assets	3,669	(7,681)
Accounts payable and accrued expenses	(32,808)	28,132
Accrued salaries, wages, and benefits	(8,733)	2,884
Other liabilities	(2,922)	(433)
Net cash (used in) provided by operating activities	(681)	62,922
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(35,684)	(59,537)
Distributions received from joint ventures	828	2,975
Purchase of investments and funds held by trustee	(1,136,343)	(1,285,307)
Cash paid for equity investment	—	(500)
Proceeds from sale and maturities of investments and funds held by trustee	1,118,048	1,314,400
Net cash used in investing activities	(53,151)	(27,969)
Cash flows from financing activities:		
Principal payments on long-term debt	(2,400)	(2,375)
Termination of swap agreements	(4,777)	—
Payment of deferred finance costs	(89)	—
Draws on line of credit	155,600	44,100
Payments on line of credit	(155,600)	(44,100)
Contributions restricted for long-lived purposes	17	125
Net cash used in financing activities	(7,249)	(2,250)
Net (decrease) increase in cash and cash equivalents	(61,081)	32,703
Cash and cash equivalents – beginning of year	66,391	33,688
Cash and cash equivalents – end of year	\$ 5,310	66,391
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 11,169	11,102
Property and equipment included in accounts payable	2,695	3,718

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

(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 over 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, in which Children's does not have a substantial ownership interest, and over which Children's 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 \$21,129 and \$28,889 for the years ended December 31, 2024 and 2023, respectively. The

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

amount due to Allina was \$10,756 and \$27,689 at December 31, 2024 and 2023, 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, 2024, through April 18, 2025, 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.

On February 5, 2025 the City of Minneapolis and the Housing and Redevelopment Authority of the City of Saint Paul, on behalf of Children's Health Care d.b.a Children's Minnesota, issued Health Care System Revenue Bonds, (Series 2025 bonds), bearing a fixed interest rate of 5.0% in an aggregate principal amount of \$182,620, with \$17,910 of premium. The proceeds will be used for the acquisition and installation of an electronic medical records system, certain facility improvements and to refund the prior Series 2020A Bonds, currently outstanding in the aggregate principal amount of \$75,200 as of December 31, 2024.

(g) Cash and Cash Equivalents

All short-term investments purchased with an original 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. At times, Children's cash accounts could exceed federally insured limits. Management believes that the institutions where cash accounts are maintained are financially stable and that the credit risk related to deposits is minimal.

(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

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(In thousands)

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 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASC) 606-10-50-14 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.

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(In thousands)

- 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 2024, the top four third-party payors accounted for 31%, 25%, 20%, and 16% of patient service revenue. In 2023, the top four third-party payors accounted for 32%, 25%, 21%, and 15% 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, 2024 and 2023 was as follows:

	2024	2023
Government payors	27 %	27 %
Other third-party payors	56	55
Patients	17	18
	100 %	100 %

Patient service revenue recognized for the years ended December 31, 2024 and 2023, by major payor source, was as follows:

		2024		2023	
		Inpatient	Outpatient	Inpatient	Outpatient
Government payors	\$	213,648	128,523	223,866	111,958
Other third-party payors		443,875	305,293	426,393	282,805
Self-pay		4,499	4,321	8,625	3,935
Patient service revenue	\$	662,022	438,137	658,884	398,698

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 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

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(In thousands)

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, 2024 and 2023.

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, 2024 and 2023. Certain investments are valued at net asset value (NAV) 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.

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(In thousands)

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 50 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 1.8% and 1.6% for the years ended December 31, 2024 and 2023, respectively. Children's recognized \$19,473 and \$15,895 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, 2024 and 2023, 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 on 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.

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(In thousands)

(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 \$14,202 and \$4,795 for the years ended December 31, 2024 and 2023, respectively. Total direct and indirect costs related to these forgone charges were \$5,824 and \$1,964, respectively, based on an average ratio of cost to gross charges.

(p) *Other Revenue*

Total other revenue from COVID-19 related programs totaled \$1,173 and \$4,011 for the years ended December 31, 2024 and 2023, respectively. Other revenue unrelated to COVID-19 funding sources primarily includes revenue from 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, 2024 and 2023 were as follows:

	2024	2023
Pledges due:		
In less than one year	\$ 3,680	3,815
In one to five years	7,219	5,536
More than five years	350	359
Total pledges due	11,249	9,710
Less discount	(432)	(212)
Less allowance for uncollectible pledges	(681)	(471)
Pledges receivable – net	10,136	9,027
Classified as:		
Prepaid expenses and other current assets	3,367	3,633
Other assets	6,769	5,394
Pledges receivable – net	\$ 10,136	9,027

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December 31, 2024 and 2023

(In thousands)

(r) Concentration of Risk

At December 31, 2024, Children's had 36.5% of its employee population covered under labor contracts. Of those employees, 74.5% are covered under labor contracts that expire the last day of May 2025, 25.0% 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 of Revenue over Expenses

Children's consolidated results of operations include excess revenue over expenses. Consistent with industry practice, changes in net assets without donor restrictions that are excluded from excess 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 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. Children's interest rate swaps were terminated in 2024 and there were no outstanding swaps as of December 31, 2024.

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

(u) *Liquidity and Availability*

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

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	\$ 5,310	66,391
Short-term investments	8,758	—
Short-term investments, board-designated	55	177
Patient accounts receivable	215,286	192,954
Long-term investments	1,102,462	1,023,831
Board-designated investments	130,598	126,717
Total financial assets	1,462,469	1,410,070
Less amounts not available to be used within one year:		
Long-term investments with certain contractual restrictions	(232,041)	(246,379)
Long-term investments with donor restrictions	(91,519)	(82,268)
Financial assets not available to be used within one year	(323,560)	(328,647)
Financial assets available to meet general expenditures within one year	\$ 1,138,909	1,081,423

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 \$100,000 line of credit with U.S. Bank, which is set to expire March 13, 2026. As of December 31, 2024 and 2023, no amounts were drawn on the line of credit.

(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.

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Notes to Consolidated Financial Statements

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(In thousands)

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.

CHILDREN'S HEALTH CARE

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(In thousands)

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, 2024.

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 Interbank Offered Rate 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 investable securities at December 31, 2024 and 2023 is shown below:

	2024	2023
Fixed income securities	\$ 310,725	239,910
Corporate equities	208,912	182,272
Foreign investments	151,681	154,198
Investments measured at NAV	564,882	569,037
Perpetual trusts held by others	4,527	4,286
Interest and dividends receivable	1,152	1,028
Total	\$ 1,241,879	1,150,731
	2024	2023
Investments are reported as:		
Short-term investments	\$ 8,758	—
Short-term investments, board-designated	55	177
Funds held by trustee	6	6
Long-term investments	1,102,462	1,023,831
Board-designated investments	130,598	126,717
Total	\$ 1,241,879	1,150,731

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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, 2024 and 2023, the following schedule summarizes the investment gains and its classification in the consolidated statements of operations and changes in net assets:

	2024	2023
Investment earnings in net assets without donor restrictions:		
Interest and dividend income	\$ 25,966	37,768
Net realized gains on investments	36,940	3,683
Net unrealized gains on investments	28,488	72,328
Total	91,394	113,779
Investment earnings in net assets with donor restrictions:		
Interest and dividend income	2,016	2,533
Net realized gains on investments	2,007	124
Net unrealized gains on investments	2,103	4,665
Total	6,126	7,322
Total investment gains	\$ 97,520	121,101
Reported within:		
Other operating revenue	\$ 903	654
Investment income and realized gains	62,003	40,797
Net unrealized gains on investments	28,488	72,328
Changes in net assets with donor restrictions	6,126	7,322
Total investment gains	\$ 97,520	121,101

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 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.

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

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(In thousands)

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. The interest rate swaps associated with the Series 2020A Bonds were terminated prior to December 31, 2024 (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 were a liability of \$0 and \$6,222 as of December 31, 2024 and 2023, 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 \$1,445 and \$347 for the years ended December 31, 2024 and 2023, respectively. Children's recognized \$(83) and \$45 as interest costs in financing costs (recovery) expense related to these swap agreements for the years ended December 31, 2024 and 2023, 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.

On July 29, 2024, Children's terminated the fixed payer interest rate swap agreements associated with the Series 2007A1 Bonds and the Series 2007A2 Bonds. Cash paid in the settlement of the swap agreements was \$4,777.

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

The notional amounts and interest rates of the interest rate swaps at December 31, 2024 and 2023 are as follows:

Swap agreement	Fair value	Change in fair value *	Cash Paid in Settlement *	Current notional amount	Rate paid	Rate received
As of December 31, 2024:						
2007A1 (2020A) *	\$ —	724	2,388	—	3.518 %	3.708 %
2007A2 (2020A) *	—	721	2,389	—	3.518	3.708
	<u>\$ —</u>	<u>1,445</u>	<u>4,777</u>	<u>—</u>		
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
	<u>\$ (6,222)</u>	<u>347</u>	<u>—</u>	<u>77,600</u>		

* The swaps were terminated prior to December 31, 2024. There are no outstanding swaps as of December 31, 2024

Children's had 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.

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

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(In thousands)

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2024 and 2023 are summarized in the following tables by type of inputs applicable to the fair value measurements:

	Fair value			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 5,310	—	—	5,310
Investments:				
Fixed-income securities:				
Money market and short-term bond funds	3,708	46,148	—	49,856
U.S. gov't and U.S. gov't agencies obligations	—	21,694	—	21,694
Municipal bond fund	38,151	—	—	38,151
Closed-end bond funds	—	135,514	—	135,514
Mortgage-backed securities	—	1,853	—	1,853
Asset backed securities	—	—	—	—
Private convertible note	—	—	—	—
REIT and real estate loan portfolio	—	25,138	12,978	38,116
Investment grade corporate bonds	—	25,541	—	25,541
High yield bonds	—	—	—	—
Total fixed-income	41,859	255,888	12,978	310,725
Corporate equities:				
Large cap	38,540	—	—	38,540
Mid cap	33,852	—	—	33,852
Small cap	2,856	—	—	2,856
Closed-end equity funds	40,595	88,055	—	128,650
Equity futures options	—	—	—	—
Equity index funds	—	5,014	—	5,014
Total corporate equities	115,843	93,069	—	208,912
Foreign investments:				
Foreign bonds	—	20,889	—	20,889
Foreign equities	121,513	9,279	—	130,792
Foreign closed-end equities	—	—	—	—
Total foreign investments	121,513	30,168	—	151,681
Total investments measured at NAV	—	—	—	564,882
Perpetual trusts held by others	—	4,527	—	4,527
Pending trades	—	—	—	—
Interest and dividends receivable	1,152	—	—	1,152
Total investments	\$ 280,367	383,652	12,978	1,241,879

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Notes to Consolidated Financial Statements

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(In thousands)

	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 NAV				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

* Investments are measured at NAV and included only for reconciliation purposes.

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Notes to Consolidated Financial Statements

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(In thousands)

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 NAV as a practical expedient to fair value. Investments measured at NAV at December 31, 2024 and 2023 are summarized in the following tables:

	<u>NAV</u>	<u>Redemption frequency</u>	<u>Redemption notice</u>	<u>Unfunded commitments</u>
As of December 31, 2024:				
Commingled funds (a)	\$ 61,214	Monthly	Monthly	\$ —
Limited partnerships (b):				
Private credit	80,459	None	None	47,799
Private credit	39,838	Monthly	30 days notice	12,500
Private credit	31,166	Within 12 months	90 days notice	—
Private equity	145,288	None	None	72,578
Targeted strategy	78,379	Monthly	10 days notice	—
Targeted strategy	74,018	Quarterly	30 days notice	—
Targeted strategy	7,393	Quarterly	90 days notice	—
Multi-strategy mandate hedge fund (c)	47,127	Quarterly	30 days notice	—
	<u>\$ 564,882</u>			

	<u>NAV</u>	<u>Redemption frequency</u>	<u>Redemption notice</u>	<u>Unfunded commitments</u>
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	—
	<u>\$ 569,037</u>			

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Notes to Consolidated Financial Statements

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(In thousands)

- (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 NAV. 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 NAV, 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 2024 or 2023.

(3) Land, Buildings, and Equipment - net

Land, buildings, and equipment - net at December 31, 2024 and 2023 consisted of the following:

	2024	2023
Land	\$ 30,675	26,066
Buildings and building improvements	533,599	525,269
Furniture, fixtures, and equipment	402,052	385,454
Construction in progress	725	1,243
Land, buildings, and equipment – gross	967,051	938,032
Less accumulated depreciation	(667,386)	(637,135)
Land, buildings, and equipment – net	\$ 299,665	300,897

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(In thousands)

The construction in progress at December 31, 2024, includes various building improvements that have been received but not yet put into service. The construction in progress at December 31, 2023 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, 2024 or 2023.

Depreciation expense for the years ended December 31, 2024 and 2023 was \$35,626 and \$47,566, respectively.

(4) Long-Term Debt

Long-term debt at December 31, 2024 and 2023 consisted of the following:

	2024	2023
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 4.8% for 2024; 4.7% for 2023)	75,200	77,600
Total long-term debt	289,295	291,695
Less:		
Unamortized bond premiums and discounts	(1,126)	(1,171)
Unamortized bond issuance costs	(2,524)	(2,546)
Current maturities	(74,674)	(2,289)
Long-term portion	\$ 210,971	285,689

On January 15, 2020, Children's issued \$214,095 of Taxable Bonds, Series 2020 (Series 2020 Bonds), due in installments beginning August 15, 2045 through August 15, 2049, bearing a fixed interest rate of 3.448%.

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 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 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 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

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(In thousands)

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.

Aggregate annual maturities of long-term debt for each of the five years as of December 31, 2024 and thereafter are as follows:

Year ending December 31:		
2025	\$	75,200
2026		—
2027		—
2028		—
2029		—
Thereafter		<u>214,095</u>
Total	\$	<u><u>289,295</u></u>

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(In thousands)

(5) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and/or periods at December 31, 2024 and 2023:

	2024	2023
Donor-restricted endowments subject to spending policy and appropriation to support the following purposes:		
Program activities	\$ 35,970	32,015
Health education and research	25,430	23,809
Community service	3,935	3,750
	65,335	59,574
Perpetual trusts, distributions available to support the following purposes:		
Program activities	2,562	2,422
Health education and research	1,966	1,864
	4,528	4,286
Subject to expenditure for specified purpose:		
Program activities	17,698	17,962
Purchases of buildings and equipment	2,585	3,657
Health education and research	2,922	2,372
Community service	952	747
Total	24,157	24,738
Total net assets with donor restrictions	\$ 94,020	88,598

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

	2024	2023
Quasi-endowment, subject to spending policy and appropriation to support the following purposes:		
Program activities	\$ 130,653	126,894
	\$ 130,653	126,894

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, 2024 and

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(In thousands)

2023 were released from donor restrictions by incurring expenses or by making capital expenditures satisfying the restricted purposes of the following:

	2024	2023
Department uses	\$ 8,946	10,013
Purchases of buildings and equipment	1,122	1,804
Health education and research	1,419	526
Community service	1,458	1,442
Total	\$ 12,945	13,785

(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, 2024 and 2023, included within endowment net assets with donor restrictions are accumulated earnings of \$28,836 and \$25,414, respectively.

	Without donor restrictions	With donor restrictions	Total
Year ended December 31, 2024:			
Endowment net assets – beginning of year	\$ 126,894	63,831	190,725
Investment returns:			
Investment gains	7,835	4,186	12,021
Net unrealized losses	3,547	1,698	5,245
Change in value of perpetual trusts held by others	—	242	242
Total investment returns	11,382	6,126	17,508
Contributions	\$ —	2,581	2,581
Appropriations of endowment assets for expenditure	(7,623)	(2,704)	(10,327)
Endowment net assets – end of year	\$ 130,653	69,834	200,487

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

	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
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

(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, 2024 and 2023.

(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 2024 and 2023, the spending rate was 4.5% and 4.0%, respectively 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).

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

(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 2024 and 2023 were \$5,576 and \$6,413, 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 \$35,000.

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 \$7,552 and \$7,830 at December 31, 2024 and 2023, 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 and \$800. Children's has purchased excess medical liability insurance for individual claims in excess of \$800.

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

(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 \$0 for the years ended December 31, 2024 and 2023, 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 gain of \$0 and \$1 for the years ended December 31, 2024 and 2023, 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, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Change in benefit obligation:		
Obligation – beginning of year	\$ 23,059	22,404
Interest cost	1,108	1,125
Actuarial (gain) loss	(120)	1,012
Benefit payments	<u>(1,557)</u>	<u>(1,482)</u>
Obligation – end of year	<u>\$ 22,490</u>	<u>23,059</u>

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

	2024	2023
Change in plan assets:		
Fair value of plan assets – beginning of year	\$ 23,815	24,140
Benefit payments	(1,557)	(1,482)
Actual return on plan assets	1,075	1,157
Fair value of plan assets – end of year	23,333	23,815
Net amount recognized:		
Long-term portion (included in other assets)	843	756
Funded status – end of year	843	756
Accumulated benefit obligation	\$ 22,490	23,059

Components of net periodic benefit cost for the plan for 2024 and 2023 are as follows:

	2024	2023
Interest cost	\$ 1,108	1,125
Expected return on plan assets	(948)	(1,015)
Amortization of loss	21	—
Net periodic pension cost	\$ 181	110

Components of RSVP plan related changes other than net periodic plan expense for 2024 and 2023 are as follows:

	2024	2023
Net (loss) gain arising during year	\$ 247	(871)
Amortization of loss	21	—
Total	\$ 268	(871)

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, 2024 and 2023 is as follows:

	2024	2023
Amortization of loss	\$ (3,106)	(3,374)

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

Weighted average assumptions used to determine the benefit obligations and net periodic benefit costs at December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Discount rate – benefit obligation	5.63 %	5.14 %
Discount rate – net periodic benefit cost	5.14	5.43
Rate of compensation increase	N/A	N/A
Expected return on plan assets	4.20	4.20

Children's pension plan asset allocation at December 31, 2024 and 2023 by asset category is as follows:

	<u>Plan assets</u>	
	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	10 %	4 %
Fixed income investments	90	96
Total	<u>100 %</u>	<u>100 %</u>

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

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

Children's pension plan investments measured at fair value on a recurring basis at December 31, 2024 and 2023 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, 2024:			
Cash, cash equivalents, and accrued interest	\$ 2,349	—	2,349
Fixed income investments:			
Investment grade	—	3,957	3,957
Mortgage-backed securities	—	8,608	8,608
Closed-end bond funds	—	3,738	3,738
U.S. government agency and municipal issues	—	4,681	4,681
Total fixed income investments	—	20,984	20,984
Total pension plan investments	\$ 2,349	20,984	23,333
	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

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

See note 2 for discussion over the fair value hierarchy, fair value inputs, and valuation methodologies used at December 31, 2024 and 2023.

Children's made no transfers between levels during 2024 or 2023.

Benefits expected to be paid through the defined-benefit pension plans, by year, as of December 31, 2024 are as follows:

2025	\$	2,067
2026		2,112
2027		2,046
2028		1,469
2029		1,746
Subsequent five years	\$	7,024

Children's does not expect to make a contribution to the RSVP II Plan during 2025. The estimated net actuarial loss for the plan that will be amortized from unrestricted net assets into net periodic benefit cost during 2025 is \$30.

The long-term rate of return on assets reflected in the 2024 expense was 4.2%. The rate is determined based on Children's asset allocation during 2024 of 10% cash and cash equivalents and 90% 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, 2024, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN)

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

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 2024 and 2023 contributions.

Pension fund	EIN/ Pension plan number	Pension protection act zone status (a)		FIP/RP status pending/ implemented	Contributions of Children's		Surcharge imposed	Expiration date of collective bargaining agreement
		January 1			Plan year ended			
		2024	2023		2024	2023		
Twin City Hospitals – Minnesota Nurses Association Pension Plan	41-6184922/001	Green	Green	Implemented	\$ 13,565	14,098	No	5/31/2025
Other funds	—	—	—	—	797	707	—	—
Total contributions					\$ 14,362	14,805		

(a) The plan's funding level on January 1, 2024 is determined based on the actual December 31, 2023 asset values and projected liabilities as of January 1, 2024 that are a rollforward of liabilities from the previous valuation date of January 1, 2023, assuming no actuarial gains/losses occur during the period.

In January 2025, Children's contributed \$15,188 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 2025.

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, 2024 and 2023. At the date the consolidated financial statements were issued, the Form 5500 was not available for the plan year ended in 2024.

(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

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

obligation and the amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2024 and 2023 are as follows:

	2024	2023
Change in benefit obligations:		
Obligation – beginning of year	\$ 2,837	2,985
Service cost	157	118
Interest cost	146	160
Net loss (gain)	(224)	(204)
Benefit payments	(189)	(222)
Obligation included in other long-term liabilities – end of year	\$ 2,727	2,837

For the 2024 postretirement benefit obligation, certain actuarial assumptions were changed from 2023, including the discount 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 5.65% for 2024 and 5.05% for 2023. For measurement purposes, a 7% annual rate increase in the cost of covered healthcare benefits was assumed for 2024; the rate was assumed to decrease by 0.25% per year for eight years reaching 5% in 2033 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 \$20,738 and \$19,132 for the years ended December 31, 2024 and 2023, 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, 2024, there were 15 executives and 200 employed physicians active in the plan. The liability for these plans at December 31, 2024 and 2023 was \$9,057 and \$8,731, respectively, of which \$5,123 and \$4,079 was included in other long-term liabilities and \$3,934 and \$4,652 was included in accrued salaries, wages, and benefits in the consolidated balance sheets.

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

(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, 2024 and 2023 are as follows:

	Year ended December 31, 2024			
	Program	G&A	Fundraising	Total
Salaries, wages, and employee benefits	\$ 633,383	74,163	3,598	711,144
Professional fees and purchased services	96,222	40,705	1,012	137,939
Supplies	141,542	732	43	142,317
Facilities	16,138	2,003	—	18,141
Depreciation and amortization	24,588	11,958	12	36,558
Financing costs	11,120	—	—	11,120
Health services taxes	32,512	—	—	32,512
Other	50,693	18,370	4,836	73,899
Total expenses	<u>\$ 1,006,198</u>	<u>147,931</u>	<u>9,501</u>	<u>1,163,630</u>

	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	<u>\$ 986,924</u>	<u>149,154</u>	<u>8,956</u>	<u>1,145,034</u>

(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 HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

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 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 uncertain income tax positions for the years ended December 31, 2024 or 2023. Children's is not subject to an income tax examination for years before 2021.

(10) Other Assets

Other assets for the years ended December 31, 2024 and 2023 consist of the following:

	2024	2023
Investments in unconsolidated joint ventures	\$ 60,295	59,747
Deferred compensation	9,057	8,975
RSVP Retirement Plan II	843	756
Foundation long-term pledges receivable – restricted	6,769	5,394
Other	10,995	14,032
Total other assets	\$ 87,959	88,904

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		Share of net earnings (loss)	
		2024	2023	2024	2023
HealthEast Woodwinds Hospital Diagnostic Treatment Center	20 %	\$ 13,082	12,612	3,250	1,816
Critical Care Services, Inc. (d/b/a Life Link III)	10	5,442	5,397	45	(100)
Health System Cooperative Laundries	6	935	835	122	62
Mother Baby Pavilion, LLC	50	16,911	18,053	(1,142)	(1,147)
		\$ 36,370	36,897	2,275	631

Children's received \$828 and \$2,975 in distributions from joint ventures for the years ended December 31, 2024 and 2023. Children's paid \$0 and \$500 in cash infusions to joint ventures for the years ended December 31, 2024 and 2023.

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

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	
	2024	2023
Total assets	\$ 164,140	172,738
Total liabilities	45,820	54,715
Total net assets	118,320	118,023
Total revenue	219,942	206,557
Total operating expenses	205,158	197,846
Excess of revenues over expenses	\$ 14,784	8,711

Investments accounted for under the cost method were \$23,925 and \$22,850 at December 31, 2024 and 2023, 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 \$4,199. As of December 31, 2024, 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, 2024 and 2023, commitments under these arrangements were \$13,150 and \$5,513, respectively.

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

(12) Other Long-Term Liabilities

Other long-term liabilities for the years ended December 31, 2024 and 2023 consist of the following:

	<u>2024</u>	<u>2023</u>
Other benefit plans	\$ 8,447	6,994
Self-insured reserves	8,182	8,605
Deferred revenue	4,983	4,320
Other	641	388
Total other long-term liabilities	<u>\$ 22,253</u>	<u>20,307</u>

(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 6.7 years and 7.2 years for the years ended December 31, 2024 and 2023, respectively. The weighted average discount rate of operating leases was 3.0% and 2.9% for the years ended December 31, 2024 and 2023, respectively.

Children's incurred operating lease expense of \$6,880 and \$7,018 for the years ended December 31, 2024 and 2023, respectively. Operating cash flows from operating leases were \$7,752 and \$7,703 for the years ended December 31, 2024 and 2023, respectively. Sublease rental income was \$1,241 and \$1,711 for the years ended December 31, 2024 and 2023, respectively.

Payments on operating lease liabilities as of December 31, 2024 are as follows:

2025	\$ 7,025
2026	5,975
2027	5,194
2028	4,377
2029	4,018
Thereafter	<u>10,559</u>
Total future minimum lease payments	37,148
Less imputed interest	<u>(3,302)</u>
Total lease liabilities	<u>\$ 33,846</u>

CHILDREN'S HEALTH CARE

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

(In thousands)

Future minimum lease payments to be received as lessor under sublease arrangements as of December 31, 2024 are as follows:

2025	\$	1,233
2026		1,030
2027		1,022
2028		1,021
2029		819
Thereafter		<u>1,574</u>
	\$	<u><u>6,699</u></u>

ADDITIONAL INFORMATION

CHILDREN'S HEALTH CARE

Consolidating Balance Sheet Information

December 31, 2024

(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	\$ 4,887	423	—	—	—	5,310
Short-term investments	8,758	—	—	—	—	8,758
Short-term investments, board-designated	55	—	—	—	—	55
Funds held by trustee	6	—	—	—	—	6
Patient accounts receivable	215,286	—	—	—	—	215,286
Prepaid expenses and other current assets	60,387	2,857	346	—	(12,433)	51,157
Total current assets	289,379	3,280	346	—	(12,433)	280,572
Intercompany accounts	8,379	—	4,599	—	(12,978)	—
Long-term investments	1,081,792	20,670	—	—	—	1,102,462
Board-designated investments	130,598	—	—	—	—	130,598
Operating lease right-of-use assets, net	24,908	—	—	—	—	24,908
Other assets	88,209	—	—	—	(250)	87,959
Land, buildings, and equipment – net	299,565	—	94	6	—	299,665
Total	\$ 1,922,830	23,950	5,039	6	(25,661)	1,926,164
Liabilities and Net Assets						
Current liabilities:						
Current maturities of long-term debt	\$ 74,674	—	—	—	—	74,674
Current portion of operating lease liabilities	6,128	—	—	—	—	6,128
Accounts payable and accrued expenses	61,274	11,632	40	—	(12,433)	60,513
Accrued salaries, wages, and benefits	56,220	—	—	—	—	56,220
Other current liabilities	13,468	975	728	—	—	15,171
Total current liabilities	211,764	12,607	768	—	(12,433)	212,706
Intercompany accounts	12,261	—	—	717	(12,978)	—
Other long-term liabilities	15,676	6,577	—	—	—	22,253
Long-term portion of operating lease liabilities	27,718	—	—	—	—	27,718
Long-term debt – excluding current maturities	210,971	—	—	—	—	210,971
Total liabilities	478,390	19,184	768	717	(25,411)	473,648
Net assets:						
Net assets without donor restrictions	1,350,420	4,766	4,271	(711)	(250)	1,358,496
Net assets with donor restrictions	94,020	—	—	—	—	94,020
Total net assets	1,444,440	4,766	4,271	(711)	(250)	1,452,516
Total	\$ 1,922,830	23,950	5,039	6	(25,661)	1,926,164

See accompanying notes to consolidating schedules of financial statements information.

See independent auditors' report.

CHILDREN'S HEALTH CARE

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2024

(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	\$ 1,099,409	—	—	—	750	1,100,159
Net assets released from restrictions for operations	11,823	—	—	—	—	11,823
Other	43,892	5,576	9,037	—	(9,859)	48,646
Total revenue	1,155,124	5,576	9,037	—	(9,109)	1,160,628
Expenses:						
Salaries, wages, and employee benefits	710,139	—	5,292	—	(4,287)	711,144
Professional fees and purchased services	138,118	289	313	1	(782)	137,939
Supplies	142,299	—	18	—	—	142,317
Facilities	18,095	—	46	—	—	18,141
Depreciation and amortization	36,545	—	12	1	—	36,558
Financing costs	11,391	—	—	—	(271)	11,120
Health services taxes	32,495	—	17	—	—	32,512
Other	69,342	5,395	3,201	—	(4,039)	73,899
Total expenses	1,158,424	5,684	8,899	2	(9,379)	1,163,630
Operating (loss) income	(3,300)	(108)	138	(2)	270	(3,002)
Nonoperating gains (losses):						
Investment income and realized gains (losses)	61,861	142	271	—	(271)	62,003
Income on investments accounted for under the equity method	2,275	—	—	—	—	2,275
Net unrealized gains on investments	27,179	1,309	—	—	—	28,488
Change in fair value of interest rate swaps	1,445	—	—	—	—	1,445
Nonservice component of pension expense	23	—	—	—	—	23
Total nonoperating gains (losses)	92,783	1,451	271	—	(271)	94,234
Excess (deficiency) of revenue over expenses	89,483	1,343	409	(2)	(1)	91,232
Net assets without donor restrictions:						
Net assets released from restrictions – capital acquisitions	1,122	—	—	—	—	1,122
RSVP plan-related changes other than net periodic plan expense	266	—	—	—	—	266
Increase (decrease) in net assets without donor restrictions	90,871	1,343	409	(2)	(1)	92,620
Net assets with donor restrictions:						
Contributions	12,241	—	—	—	—	12,241
Investment income	4,186	—	—	—	—	4,186
Net unrealized gains on investments	1,698	—	—	—	—	1,698
Net assets released from restrictions – operations	(11,823)	—	—	—	—	(11,823)
Net assets released from restrictions – capital acquisitions	(1,122)	—	—	—	—	(1,122)
Change in value of perpetual trusts held by others	242	—	—	—	—	242
Increase in net assets with donor restrictions	5,422	—	—	—	—	5,422
Increase (decrease) in net assets	96,293	1,343	409	(2)	(1)	98,042
Net assets – beginning of year	1,348,147	3,424	3,862	(709)	(250)	1,354,474
Net assets – end of year	\$ 1,444,440	4,767	4,271	(711)	(251)	1,452,516

See accompanying notes to consolidating schedules of financial statements information.

See independent auditors' report.

CHILDREN'S HEALTH CARE

Notes to Consolidating Schedules of Financial Statements Information

December 31, 2024

(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.