Children's Healthcare of Atlanta, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017:	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7–25

Deloitte.

Deloitte & Touche LLP
191 Peachtree Street NE
Suite 2000
Atlanta, GA 30303-1943
USA

Tel: +1 404 631 2000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Children's Healthcare of Atlanta, Inc. (a Georgia not-for-profit corporation) and Affiliates ("Children's"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Children's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Children's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's as of December 31, 2018 and 2017, and the results of operations, the changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Children's retrospectively adopted the provisions of Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective January 1, 2018. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

May 22, 2019

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 230,691	$ 130,491
Assets whose use is limited (Note 5)	58,085	58,615
Patient accounts receivable—net	208,327	200,452
Contributions receivable—net	24,138	24,795
Other receivables	5,269	5,174
Supplies and prepaid expenses	45,090	38,166
Total current assets	571,600	457,693
ASSETS WHOSE USE IS LIMITED (Note 5)	4,386,213	4,737,047
OTHER NONCURRENT ASSETS:		
Deposits and other assets	8,411	7,163
Noncurrent contributions receivable—net	31,587	14,440
Total other noncurrent assets	39,998	21,603
PROPERTY AND EQUIPMENT—Net (Note 1)	942,924	790,913
BENEFICIAL INTERESTS IN TRUSTS	160,270	155,845
TOTAL	$ 6,101,005	$ 6,163,101
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 11,551	$ 11,102
Long-term debt classified as current (Note 7)	58,085	58,615
Current research pledges (Note 1)	16,354	8,225
Accounts payable and other	161,974	183,339
Salaries, related taxes, and benefits	73,454	66,514
Accrued interest	2,114	2,276
Total current liabilities	323,532	330,071
LONG-TERM DEBT—Net of portion classified as current (Note 7)	554,207	565,010
NONCURRENT RESEARCH PLEDGES (Note 1)	47,682	59,591
OTHER NONCURRENT LIABILITIES	101,162	117,411
Total noncurrent liabilities	703,051	742,012
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS:		
Without donor restriction	4,525,022	4,529,540
With donor restriction (Note 1)	541,517	552,609
Noncontrolling interests in Surgery Center	7,883	8,869
Total net assets	5,074,422	5,091,018
TOTAL	$ 6,101,005	$ 6,163,101

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES AND SUPPORT:						
Net patient service revenue	$ 1,659,417	$ -	$ 1,659,417	$ 1,544,620	$ -	$ 1,544,620
Other operating revenue	63,540	-	63,540	67,169	-	67,169
Contributions	20,655	72,839	93,494	19,220	55,524	74,744
Investment return designated for operations	28,933	-	28,933	-	-	-
Net assets released from restriction for operations	58,183	(58,183)	-	54,339	(54,339)	-
Total operating revenues and support	1,830,728	14,656	1,845,384	1,685,348	1,185	1,686,533
OPERATING EXPENSES:						
Salaries and wages	797,698	-	797,698	748,766	-	748,766
Employee benefits	184,750	-	184,750	170,056	-	170,056
Purchased services	171,473	-	171,473	168,162	-	168,162
Supplies	187,327	-	187,327	181,089	-	181,089
Other expenses	110,266	-	110,266	102,805	-	102,805
Interest expense	24,628	-	24,628	20,265	-	20,265
Depreciation	80,875	-	80,875	67,877	-	67,877
Total operating expenses	1,557,017	-	1,557,017	1,459,020	-	1,459,020
OPERATING INCOME	273,711	14,656	288,367	226,328	1,185	227,513
INVESTMENT (LOSS) INCOME (Note 5)	(301,799)	(8,895)	(310,694)	594,430	39,507	633,937
CHANGE IN FAIR VALUE OF INTEREST RATE SWAPS (Notes 1 and 6)	14,579	-	14,579	5,635	-	5,635
REVENUE (UNDER) OVER EXPENSES	(13,509)	5,761	(7,748)	826,393	40,692	867,085
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(9,416)	-	(9,416)	(9,345)	-	(9,345)
REVENUE (UNDER) OVER EXPENSES ATTRIBUTABLE TO CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES	$ (22,925)	$ 5,761	$ (17,164)	$ 817,048	$ 40,692	$ 857,740

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interests	Total
NET ASSETS—December 31, 2016, as restated (Note 1)	$3,710,137	$505,771	$ 7,738	$4,223,646
Revenues over expenses	817,048	40,692	9,345	867,085
Net assets released from restriction for Hughes				-
Spalding (Notes 1 and 2)	-	(4,052)	-	(4,052)
Net assets released from restriction for property additions	2,355	(2,355)	-	-
Distributions to noncontrolling interests in Surgery Center	-	-	(8,425)	(8,425)
Proceeds from sale of noncontrolling interests in Surgery Center	-	-	211	211
Increase in beneficial interest in trusts	-	12,553	-	12,553
Increase in net assets	819,403	46,838	1,131	867,372
NET ASSETS—December 31, 2017	4,529,540	552,609	8,869	5,091,018
Revenues (under) over expenses	(22,925)	5,761	9,416	(7,748)
Net assets released from restriction for Hughes Spalding (Notes 1 and 2)	-	(1,727)	-	(1,727)
Net assets released from restriction for property additions	18,407	(18,407)	-	-
Distributions to noncontrolling interests in Surgery Center	-	-	(11,567)	(11,567)
Proceeds from sale of noncontrolling interests in Surgery Center	-	-	1,165	1,165
Increase in beneficial interest in trusts	-	3,281	-	3,281
Decrease in net assets	(4,518)	(11,092)	(986)	(16,596)
NET ASSETS—December 31, 2018	$4,525,022	$541,517	$ 7,883	$5,074,422

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (16,596)	$ 867,372
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	80,875	67,877
Bond issuance cost amortization	218	217
Bond premium amortization	(93)	(169)
Net unrealized losses (gains) on investments	560,948	(328,977)
Net realized gains on sale of investments	(194,752)	(186,556)
Net change in fair value of interest rate swaps	(14,579)	(5,635)
Equity in loss (income) of unconsolidated investments	(34,539)	(55,825)
Restricted contributions and other	(72,839)	(60,884)
Distributions to noncontrolling interests in Surgery Center and other	10,402	8,214
Changes in assets and liabilities:		
Patient accounts receivable and other receivables	(7,975)	(18,102)
Supplies and prepaid expenses	(6,924)	(326)
Other noncurrent assets	(4,535)	(17,207)
Accounts payable and accrued liabilities	(6,458)	38,651
Other noncurrent liabilities	(13,580)	(16,690)
Total adjustments	296,169	(575,412)
Net cash provided by operating activities	279,573	291,960
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(232,885)	(222,166)
Purchase of assets whose use is limited	(5,070,135)	(2,857,880)
Proceeds from distribution and disposal of assets whose use is limited	5,097,594	2,535,233
Net cash used in investing activities	(205,426)	(544,813)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	-	220,000
Payment of bond issuance costs	-	(1,072)
Repayments of long-term debt	(11,009)	(10,533)
Distributions to noncontrolling interests in Surgery Center	(11,567)	(8,425)
Proceeds from sale of noncontrolling interests in Surgery Center	1,165	211
Cash proceeds from restricted contributions and investment income	47,464	97,325
Net cash provided by financing activities	26,053	297,506
NET INCREASE IN CASH AND CASH EQUIVALENTS	100,200	44,653
CASH AND CASH EQUIVALENTS—Beginning of year	130,491	85,838
CASH AND CASH EQUIVALENTS—End of year	$ 230,691	$ 130,491

See notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets Whose Use is Limited—Assets whose use is limited primarily include assets restricted by donors and assets set aside by the Board of Trustees (the "Board") over which the Board retains control. In 2018, the Board designated quasi-endowments for academics and child advocacy of $900,000,000 and $200,000,000, respectively, the earnings of which would support these mission-focused programs. The Board may, at its discretion, subsequently use these assets for other purposes.

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

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

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

A detail of property, equipment, and accumulated depreciation as of December 31, 2018 and 2017 is as follows (in thousands):

	2018	2017
Land and land improvements	$ 196,540	$ 160,889
Buildings and fixed equipment	783,728	601,877
Movable equipment and computer software	685,962	603,248
Construction in progress	104,546	177,356
Total property and equipment	1,770,776	1,543,370
Less accumulated depreciation	(827,852)	(752,457)
Property and equipment—net	$ 942,924	$ 790,913

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

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

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

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

Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. Net patient service revenue increased approximately $16,456,000 and $2,879,000 in 2018 and 2017, respectively, due to cash payments and the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to reviews, audits, or investigation. Children's recognizes that net patient service revenue and patient accounts receivable from government agencies are significant to its operations.

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

Children's recognizes patient service revenue for patients that do not qualify for charity care based on standard rates for services provided. A significant portion of the patients that do not qualify for charity care will be unable or unwilling to pay for services provided. Thus, Children's records a provision for doubtful accounts related to these patients in the period the services are provided. Patient service revenue, net of contractual allowances, discounts and estimated bad debts, recognized for the years ended December 31, 2018 and 2017, by payor, was approximately (dollars in thousands):

	2018		2017	
Medicaid	$ 229,995	14 %	$ 214,817	14 %
Medicaid managed care	430,524	26	392,562	25
Managed care	936,122	56	891,140	58
Commercial and other	62,776	4	46,101	3
Total	$ 1,659,417	100 %	$ 1,544,620	100 %

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

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

Contributions receivable as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Due in less than one year	$24,550	$25,196
Due between one and five years	34,426	15,621
Total contributions receivable	58,976	40,817
Allowance for uncollectible amounts	(3,251)	(1,582)
Contributions receivable—net	$55,725	$39,235

Research Pledges—To further its mission of encouraging scientific investigation into the medical problems of children, Children's periodically makes irrevocable research funding commitments to third parties. At December 31, 2018, Children's had outstanding funding commitments of approximately $73,628,000 to fund pediatric research in the Atlanta, Georgia area. These irrevocable research commitments were recorded as a component of purchased services in the year of commitment.

Income Taxes—Children's is primarily composed of organizations that have been recognized by the Internal Revenue Service as tax exempt under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying consolidated statements of operations. Sibley Cardiology, The Children's Health Network, and The Children's Care Network are taxable entities and the provision for income taxes was not material for the years ended December 31, 2018 and 2017.

Consolidated Statements of Cash Flows—Cash payments for interest totaled approximately $22,040,000 and $20,384,000 for the years ended December 31, 2018 and 2017, respectively.

Use of Estimates—The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for accounting principles generally accepted in the United States of America. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Children's adopted ASU No. 2014-09 effective January 1, 2018, using the retrospective method. The adoption of ASU No. 2014-09 did not have a significant impact on the recognition of net patient service revenue by Children's for any periods prior to adoption. The most significant impact of adopting the new standard is to the presentation of the consolidated statements of operations. The "provision for bad debts" is no longer presented as a separate line item and "net patient service revenues" are presented net of estimated implicit price concessions. The related presentation of "allowance for uncollectible accounts" on the consolidated balance sheet has been eliminated as a result of the adoption of the new standard.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit financial statements. ASU No. 2016-14 contains the following key aspects: a) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; b) requires all not-for-profit entities to present expenses by functional and their natural classifications in one location in the financial statements; c) requires not-for-profit entities to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the consolidated balance sheet date; d) retains the option to present operating cash flows in the consolidated statement of cash flows using either the direct or indirect method; and e) minor reclassifications in the consolidated statement of cash flows and consolidated statement of changes in net assets and related footnotes for the year ended December 31, 2017, to reflect presentation requirements of ASU No. 2016-14. Children's adopted ASU No. 2016-14 effective January 1, 2018.

A summary of the net reclassifications driven by the adoption of ASU No. 2016-14 as of December 31, 2016 is as follows (in thousands):

	Without Donor Restrictions	**With Donor Restrictions**	**Noncontrolling Interests**	**Total**
As previously presented:				
Unrestricted	$3,698,622	$ -	$ -	$3,698,622
Temporarily restricted	-	321,358	-	321,358
Permanently restricted	-	195,928	-	195,928
Noncontrolling interest	-	-	7,738	7,738
Net assets as previously presented	3,698,622	517,286	7,738	4,223,646
Reclassifications to implement ASU No. 2016-14	11,515	(11,515)	-	-
Net assets, as restated, at December 31, 2016	$3,710,137	$505,771	$7,738	$4,223,646

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees recognize all leases on the balance sheet, with the exception of leases with terms less than a year. A lease liability will be recorded for the obligation of a lessee to make lease payments arising from a lease. A right-of-use asset will be recorded which represents the lessee's right to use, or to control the use of, a specified asset for a lease term. The guidance provided in ASU No. 2016-02 is effective for the fiscal year beginning January 1, 2019, and requires the modified retrospective approach for transition. Children's is currently evaluating the provisions of ASU No. 2016-02 to determine the impact on its consolidated financial statements and related disclosures. Children's expects to utilize certain practical expedients including (i) not being required to reassess whether any expired or existing contracts are or contain leases; (ii) not being required to reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as operating leases in accordance with Topic 840 will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with

Topic 840 will be classified as finance leases); and (iii) not being required to reassess initial direct costs for any existing leases.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for Profit Entities (Topic 958)*, which clarifies the scope and the accounting guidance for contributions received and contributions made. ASU No. 2018-08 provides guidance on characterizing grants and similar contracts as reciprocal exchanges or contracts and distinguishing between conditional and unconditional contributions. The guidance provided in ASU No. 2018-08 is effective for the fiscal year beginning January 1, 2019, and requires the modified prospective approach for transition. Children's is currently evaluating the provisions of ASU No. 2018-08 to determine the impact on its consolidated financial statements and related disclosures.

2. NET ASSETS WITH RESTRICTIONS

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

Net Assets With Donor Restriction Subject to Expenditure for Specific Purpose or Passage of Time—Net assets with donor restrictions are restricted for the following purposes as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Clinical	$ 51,969	$ 63,690
Academics	54,822	35,845
Child advocacy	1,368	1,088
Capital	10,489	20,127
Multi-purpose	12,664	8,136
Time	1,390	538
Total	$132,702	$129,424

Net Assets With Donor Restriction Subject to Spending Policy and Appropriation—Investments in perpetuity, including amounts above original gift amount of $69,576,000 which once appropriated, are expendable to support as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Clinical	$265,797	$277,819
Academics	58,616	62,277
Child advocacy	9,296	10,217
Multi-purpose	75,106	72,872
Total	$408,815	$423,185
Total net assets with donor restrictions	$541,517	$552,609

Net Assets Without Donor Restriction Subject to Board Designation and Appropriation—The Children's Board has quasi-endowed, from net assets without donor restriction, funds for the following purposes as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Academics	$ 900,000	$ -
Child advocacy	200,000	-
Other	25,189	25,503
Total	$ 1,125,189	$ 25,503

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

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

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

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

Endowment net asset composition by type of fund as of December 31, 2018 and 2017 is as follows (in thousands):

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	$ -	$403,566	$ 403,566	$ -	$416,719	$416,719
Board-designated funds	1,125,189	-	1,125,189	25,503	-	25,503
Total funds	$1,125,189	$403,566	$1,528,755	$25,503	$416,719	$442,222

Endowment net asset balances and activities for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Balance—December 31, 2016	$ 23,223	$ 376,938	$ 400,161
Investment income and other	3,526	39,507	43,033
Increase in beneficial interest in trusts	-	12,553	12,553
Contributions and other	(11)	4,434	4,423
Transfers	-	(5,609)	(5,609)
Appropriations for expenditures	(1,235)	(11,104)	(12,339)
Balance—December 31, 2017	25,503	416,719	442,222
Investment income and other	(1,140)	(8,895)	(10,035)
Increase in beneficial interest in trusts	-	3,281	3,281
Contributions and other	1,102,000	5,796	1,107,796
Transfers	-	(1,767)	(1,767)
Appropriations for expenditures	(1,174)	(11,568)	(12,742)
Balance—December 31, 2018	$ 1,125,189	403,566	$ 1,528,755

Children's receives restricted contributions on behalf of strategic partners for specific purposes. Such restricted contributions are recorded as contributions to net assets with donor restriction and are reclassified from restriction when the amounts are sent to the intended recipient. For the years ended December 31, 2018 and 2017, Children's released from net assets with donor restriction $1,727,000 and $4,052,000, respectively.

3. COMMUNITY BENEFIT AND CHARITY CARE

In accordance with its mission, Children's commits significant resources to promote the health and well-being of children. In support of this endeavor, Children's recognizes that some of its most fragile constituents are children whose families are financially or medically indigent. To that end, Children's provides medical treatment to children whose family or custodians are unable to pay for such treatment. Children's ensures that charity care, indigent care, education, research, and other sponsored community programs

("Community Benefit") benefit all children, regardless of economic status. Therefore, Children's maintains Community Benefit programs, within limits, that are available to the entire community, with equal consideration for those who are poor and underserved. Total Community Benefit for the year ended December 31, 2018 is estimated to be $230,300,000. Total Community Benefit for the year ended December 31, 2017, as reported in annual filings to the Internal Revenue Service, was $217,600,000.

Unreimbursed costs for charity care and Medicaid services, a component of Community Benefit, is calculated using a cost-to-charge ratio times the amount of unreimbursed charges, net of funding from the state of Georgia for neonatal care, and other funding provided to defray these costs. Children's estimates unreimbursed costs for charity care and Medicaid services to be approximately $120,100,000 for the year ended December 31, 2018. Total unreimbursed costs for charity care and Medicaid services for the year ended December 31, 2017, as reported in annual filings to the Internal Revenue Service, was $116,625,000.

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects Children's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of contractual, donor-imposed or board-imposed restrictions within one year of the balance sheet date (in thousands). Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the Board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date has not been subtracted as unavailable:

	2018	**2017**
Financial assets:		
Cash and cash equivalents	$ 230,691	$ 130,491
Patient accounts receivable—net	208,327	200,452
Assets whose use is limited	4,444,298	4,795,662
Contributions receivable—net	24,138	24,795
Other receivables	5,269	5,174
Total financial assets	4,912,723	5,156,574
Less those unavailable for general expenditure within one year due to:		
Contractual or donor-imposed restrictions:		
Subject to expenditure for specific purpose or passage of time	(132,702)	(129,424)
Subject to spending policy and appropriation	(408,815)	(423,185)
Bond agreement for asset construction	(6,571)	(77,701)
Collateral held for interest rate swap agreement	(10,150)	(21,640)
Board designations—quasi-endowments	(1,125,189)	(25,503)
Amounts set aside for standby bond purchase agreement	(58,085)	(58,615)
Unencumbered investments in hedge funds	(701,575)	(875,049)
Unencumbered investments in nonmarketable securities	(438,248)	(552,988)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,031,388	$ 2,992,469

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

5. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use as of December 31, 2018 and 2017 is set forth in the following table (in thousands):

	2018	**2017**
Board-designated for asset acquisition, uncompensated care, debt service, strategic, and operational activities:		
Cash and cash equivalents	$ 236,199	$ 180,051
Equity securities	2,117,270	2,466,878
Debt securities	309,399	340,650
Hedge funds	885,820	820,908
Investments in nonmarketable securities	553,340	518,774
Cash, cash equivalents, and debt securities held for interest rate swap agreement	10,150	21,640
Subtotal	4,112,178	4,348,901
Bond agreement designated for asset construction—cash and cash equivalents	6,571	77,701
Donor-restricted for special purposes, such as uncompensated child care:		
Cash and cash equivalents	18,751	15,356
Equity securities	167,983	210,393
Debt securities	24,563	29,053
Hedge funds	70,324	70,013
Investments in nonmarketable securities	43,928	44,245
Subtotal	325,549	369,060
Total assets whose use is limited	4,444,298	4,795,662
Less portion classified as current (Note 7)	(58,085)	(58,615)
Total assets whose use is limited—noncurrent	$ 4,386,213	$ 4,737,047

Investment (Loss) Income and Other—Significant components of investment (loss) income and other for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Investment (loss) income and other:		
Interest and dividends	$ 57,482	$ 70,376
Net realized gains on sales of investments	194,752	186,556
Net unrealized (losses) gains on investments	(560,948)	328,977
Equity in income of unconsolidated investments	34,539	55,825
Losses on unassociated interest rate swaps	-	(1,646)
Total investment (loss) income and other	(274,175)	640,088
Less investment expenses	(7,586)	(6,151)
Total net of investment expenses	(281,761)	633,937
Less investment return designated for operations	(28,933)	-
Total	$(310,694)	$633,937

Investments in Nonmarketable Securities Accounted for under the Equity Method—The accompanying consolidated statements of operations reflect equity in income related to Children's investment in nonmarketable securities required to be accounted for under the equity method of accounting of approximately $34,539,000 and $55,825,000 for the years ended December 31, 2018 and 2017, respectively.

Summarized unaudited financial information for the entities represented by the nonmarketable securities Children's accounts for under the equity method as of and for the years ended December 31, 2018 and 2017 is as follows (in thousands):

	2018	2017
Total assets	$ 76,449,998	$ 59,287,851
Total liabilities	8,363,682	4,200,441
Equity	68,086,316	55,087,410
Revenue	789,262	1,369,016
Net unrealized income	6,028,233	568,113
Net income	8,057,813	8,334,321

At December 31, 2018, Children's had outstanding funding commitments to purchase general investment partnership interests of approximately $373,039,000. These commitments will be met over the next five years.

6. FAIR VALUE MEASUREMENTS

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

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

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

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

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

The fair value table presents information about Children's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 as follows (in thousands):

Fair Value—December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets whose use is limited:				
Cash and cash equivalents	$ 271,671	$ -	$ -	$ 271,671
Equity securities:				
US equities	139,578	-	-	139,578
Non-US equities	10,051	-	-	10,051
Debt securities:				
Government agencies	-	255,205	-	255,205
Corporate bonds	-	75,208	-	75,208
Other	-	3,549	-	3,549
Mutual funds:				
Equity funds	1,076,822	901,872	-	1,978,694
Fixed-income funds	73,226	-	-	73,226
Beneficial interests in trusts	-	-	160,270	160,270
Total assets at fair value	$ 1,571,348	$ 1,235,834	$ 160,270	2,967,452
Net asset value:				
Commingled equity fund				83,704
Hedge funds				956,144
Total				$ 4,007,300
Liabilities—interest rate swap agreements	$ -	$ 70,070	$ -	$ 70,070

Fair Value—December 31, 2017	Level 1	Level 2	Level 3	Total
Assets whose use is limited:				
Cash and cash equivalents	$ 294,748	$ -	$ -	$ 294,748
Equity securities:				
US equities	180,909	-	-	180,909
Non-US equities	181,402	-	-	181,402
Real estate investments trusts	7,398	-	-	7,398
Debt securities:				
Government agencies	-	247,882	-	247,882
Corporate bonds	-	71,633	-	71,633
Other	-	50,188	-	50,188
Mutual funds:				
Equity funds	1,856,194	330,726	-	2,186,920
Fixed-income funds	75,642	-	-	75,642
Beneficial interests in trusts	-	-	155,845	155,845
Total assets at fair value	$ 2,596,293	$ 700,429	$ 155,845	3,452,567
Net asset value:				
Commingled equity fund				45,000
Hedge funds				890,921
Total				$ 4,388,488
Liabilities—interest rate swap agreements	$ -	$ 84,649	$ -	$ 84,649

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

Investments Measured at Net Asset Value

Commingled Equity Fund—As of December 31, 2018 and 2017, Children's held approximately $83,704,000 and $45,000,000, respectively, in a commingled equity fund that is not publicly traded. The underlying assets in the fund are publicly traded on the exchanges and price quotes for the assets held by the fund are readily available. These investments are redeemable at net asset value and can be liquidated, subject to a 30-day notification period.

Hedge Funds—As of December 31, 2018 and 2017, Children's held approximately $956,144,000 and $890,921,000, respectively, in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. These funds typically allow redemptions quarterly, annually, or biannually and require a redemption notification period of 45 to 90 days. No unfunded commitments existed with respect to these hedge funds as of December 31, 2018.

The changes in assets classified as Level 3 for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Balance—January 1	$155,845	$143,292
Contributions	1,144	-
Realized and unrealized gains and losses—net of fees	3,281	12,553
Balance—December 31	$160,270	$155,845

During the years ended December 31, 2018 and 2017, there were no significant transfers between Level 1, Level 2, or Level 3 investments.

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

Long-Term Debt—The fair value of long-term debt (a Level 2 measurement) is estimated based on quoted market prices for the same issues. The estimated fair values of long-term debt are $636,878,000 and $657,536,000 at December 31, 2018 and 2017, respectively.

7. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2018 and 2017 is as follows (in thousands):

	2018	2017
2008 Certificates & Bonds—2008 variable rate revenue anticipation certificates and bonds due July 2042. Interest rates range from 0.91% to 1.88% for the year ended December 31, 2018. Mandatory sinking fund redemption beginning July 2009.	$175,845	$177,440
2009 Certificates & Bonds—2009 fixed rate revenue anticipation certificates and bonds due November 2039. Interest rates range from 4% to 5.25%, payable semiannually—net of unamortized premium of $2,264 in 2018 and $2,171 in 2017. Mandatory sinking fund redemption beginning November 2024.	230,786	239,974
2017 Certificates & Bonds—2017 variable rate revenue anticipation certificates and bonds due July 2051. Interest rates range from 1.5% to 2.45% for the year ended December 31, 2018	220,000	220,000
2013 Surgery Center Commercial Note—Term note payable to bank due March 2021. Interest rate of 3.5%. Principal and interest payable monthly.	768	1,087
Subtotal	627,399	638,501
Less bond issuance costs	(3,556)	(3,774)
Less current maturities of long-term debt	(11,551)	(11,102)
Less long-term debt classified as current due to terms of standby purchase agreements	(58,085)	(58,615)
Long-term debt—net of portion classified as current	$554,207	$565,010

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

The 2008 Certificates & Bonds are remarketed on a weekly basis and the bondholders have the ability to tender any or all of the certificates and bonds at each remarketing date. Children's has standby bond purchase agreements ("SBPAs") with a financial institution to serve as security for the payment of 2008 Certificates & Bonds. In the event bondholders elect to tender any or all of the 2008 Certificates & Bonds for purchase and the revenue anticipation certificates are not able to be remarketed, the SBPAs are utilized to purchase the revenue anticipation certificates. Any amounts outstanding on the SBPAs are repayable by Children's over a three-year term. As a result, Children's has included $58,085,000 and $58,615,000 in current liabilities as of December 31, 2018 and 2017, respectively. There were no amounts outstanding at December 31, 2018 or 2017.

In December 2009, the DeKalb Authority issued approximately $249,260,000 in tax-exempt revenue anticipation certificates and the Fulton Authority issued approximately $50,720,000 in tax-exempt revenue bonds (collectively, the "2009 Certificates & Bonds") pursuant to a trust indenture by and among DeKalb Authority, the Fulton Authority, and certain investment banks. The proceeds were loaned to Children's pursuant to loan agreements between the DeKalb Authority and Children's and the Fulton Authority and Children's and were used to extinguish certain tax-exempt revenue anticipation certificates and bonds.

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

Interest Rate Swap Agreements—In connection with certain bond issues, Children's entered into interest rate swap agreements with three banks effectively converting Children's interest rate exposure on a portion of this debt from a variable to a fixed rate. Children's does not follow hedge accounting for these interest rate swaps. The interest rate swaps had an aggregate notional amount of approximately $346,970,000 and $352,115,000 at December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, Children's has recorded a liability of approximately $70,070,000 and $84,649,000, respectively, related to these interest rate swaps in other noncurrent liabilities in the accompanying consolidated balance sheets. The change in fair value of these interest rate swaps of approximately $14,579,000 and $5,635,000 is included in revenues over expenses in the accompanying consolidated statements of operations for the years ended December 31, 2018 and 2017, respectively.

The portion of the interest rate swap agreements, discussed above, that were associated with the revenue anticipation certificates and bonds refunded by the 2009 Certificates & Bonds were held as an investment ("Unassociated Interest Rate Swaps") until the issuance of the 2017 Certificates & Bonds. Prior to April 2017, losses on Unassociated Interest Rate Swaps were included in investment income and other in the accompanying consolidated statements of operations. Subsequent to March 2017, gains/losses associated with these interest rate swaps are recorded as interest expense in the accompanying consolidated statements of operations or as capitalized interest in property, plant, and equipment in the consolidated balance sheets.

Bond Issuance Costs—Costs incurred in issuing long-term debt are amortized over the life of the underlying debt. The gross amount of bond issuance costs as of December 31, 2018 and 2017 totaled $5,844,000 and the related accumulated amortization totaled $2,288,000 and $2,070,000, respectively.

Debt Maturities—Future scheduled maturities of long-term debt as of December 31, 2018 are as follows (in thousands):

Years Ending December 31	
2019	$ 11,526
2020	12,053
2021	12,364
2022	12,840
2023	13,460
Thereafter	567,420
Total	$629,663

8. RETIREMENT BENEFITS

Children's maintains defined contribution retirement plans. Contributions to the plans were $41,449,000 and $37,766,000 for the years ended December 31, 2018 and 2017, respectively.

9. COMMITMENTS AND CONTINGENCIES

Insurance Arrangements—Children's is self-insured for a substantial portion of its general and professional medical malpractice risks. Children's maintains self-insurance plan limits of $1,000,000 per occurrence for general liability and $3,000,000 per medical incident for professional liability, plus a $2,000,000 each loss/$2,000,000 aggregate self-insured buffer layer. The self-insurance plan is subject to a $17,300,000 combined annual aggregate limit. General liability coverage is occurrence based and professional liability coverage is provided on a claims basis. In addition, claims incurred but not reported prior to January 1, 2001, are covered under a commercial insurance policy subject to a $250,000 per occurrence and $750,000 aggregate retention.

The accrual for self-insured general and professional medical malpractice losses, including loss adjustment expense, is based on actuarial estimates using historical claims experience adjusted for current industry trends. The actual claim settlements and expenses may differ from amounts provided, but in the opinion of management, an adequate accrual has been made for such claims at December 31, 2018 and 2017.

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

Leases—Children's leases office space and equipment under various operating leases. Total rent expense for all operating leases amounted to approximately $19,656,000 and $16,375,000 for the years ended December 31, 2018 and 2017, respectively.

Future aggregate minimum rental commitments under all noncancelable operating leases as of December 31, 2018 are as follows (in thousands):

Years Ending December 31	
2019	$16,582
2020	12,942
2021	8,815
2022	7,755
2023	6,223
Thereafter	23,237
Total	$75,554

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

10. FUNCTIONAL EXPENSES

The mission of Children's is to make kids better today and healthier tomorrow. Program expenses relating to this mission, general and administrative and fundraising for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	2018			
	Program	**General and Administrative**	**Fund-Raising**	**Total**
Salaries and wages	$ 741,687	$47,144	$ 8,867	$ 797,698
Employee benefits	172,384	10,454	1,912	184,750
Purchased services	154,226	12,916	4,331	171,473
Supplies	187,208	-	119	187,327
Other expenses	94,503	13,743	2,020	110,266
Interest expense	24,628	-	-	24,628
Depreciation	70,535	10,319	21	80,875
Total	$ 1,445,171	$94,576	$17,270	$ 1,557,017

	2017			
	Program	General and Administrative	Fund-Raising	Total
Salaries and wages	$ 699,265	$41,170	$ 8,331	$ 748,766
Employee benefits	156,193	12,054	1,809	170,056
Purchased services	141,546	22,835	3,781	168,162
Supplies	180,686	281	122	181,089
Other expenses	88,137	12,668	2,000	102,805
Interest expense	20,265	-	-	20,265
Depreciation	59,719	8,141	17	67,877
Total	$ 1,345,811	$97,149	$16,060	$ 1,459,020

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

11. SUBSEQUENT EVENTS

Children’s has evaluated events and transactions for potential recognition or disclosure through May 22, 2019, the date the consolidated financial statements were issued.

* * * * * *