Children’s National Medical Center and Subsidiaries

Consolidated Financial Statements and Supplementary Consolidating Information
June 30, 2021 and 2020

Children’s National Medical Center and Subsidiaries
Index
June 30, 2021 and 2020

Report of Independent Auditors

To Board of Trustees of Children's National Medical Center

We have audited the accompanying consolidated financial statements of Children's National Medical Center and its subsidiaries (“Children’s National”), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Children's National’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 National'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 National Medical Center and its subsidiaries as of June 30, 2021 and 2020, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 8, 2021

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Children’s National Medical Center and Subsidiaries
Consolidated Balance Sheets
June 30, 2021 and 2020

(in thousands)	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 120,683	$ 93,566
Short term investments	21,207	96,038
Short term assets whose use is limited	2,232	664
Accounts receivable, net	290,910	207,666
Settlements due from third-party payors	9,736	24,041
Contributions receivable, net	32,558	47,929
Grant receivable	11,879	15,659
Inventories of supplies	15,372	13,069
Prepaid expenses and other	44,512	40,939
Total current assets	549,089	539,571
Noncurrent assets		
Property and equipment, net	897,663	781,087
Right of use assets, financing	113,515	123,440
Right of use assets, operating	89,224	127,168
Assets whose use is limited	37,710	33,898
Investments	1,042,917	737,387
Contributions receivable, net	33,813	39,798
Loan receivable	13,496	13,496
Interest in beneficial trusts	9,762	7,188
Other	46,622	36,601
Total noncurrent assets	2,284,722	1,900,063
Total assets	$ 2,833,811	$ 2,439,634

The accompanying notes are an integral part of these consolidated financial statements.

Children's National Medical Center and Subsidiaries
Consolidated Balance Sheets (continued)
June 30, 2021 and 2020

(in thousands)	2021	2020
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 49,806	$ 69,409
Accrued salaries and other expenses	201,365	158,713
Current portion of reserve for claims	27,208	26,715
Settlements due to third-party payors	5,028	22,294
Deferred revenue	14,840	13,843
Medical claims payable	20,700	23,925
Current portion of long-term debt	11,303	13,858
Current portion of financing lease liabilities	7,946	4,525
Current portion of operating lease liabilities	7,717	7,656
Total current liabilities	345,913	340,938
Noncurrent liabilities		
Long-term debt	737,929	490,009
Long-term financing lease liabilities	139,536	143,962
Long-term operating lease liabilities	94,150	131,382
Reserve for claims	78,271	76,062
Interest rate swaps	-	60
Other long-term liabilities	44,853	35,338
Total noncurrent liabilities	1,094,739	876,813
Total liabilities	1,440,652	1,217,751
Net Assets		
Without donor restrictions - attributable to Children's National	983,327	869,859
Without donor restrictions - noncontrolling interests	7,366	7,592
Total net assets without donor restrictions	990,693	877,451
With donor restrictions	402,466	344,432
Total net assets	1,393,159	1,221,883
Total liabilities and net assets	$ 2,833,811	$ 2,439,634

The accompanying notes are an integral part of these consolidated financial statements.

Children's National Medical Center and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2021and 2020

(in thousands)	2021	2020
Operating revenue and other support		
Net patient service revenue	$ 1,127,080	$ 1,091,416
Capitation revenue	176,260	150,782
Grant revenue	89,662	86,106
Other operating revenue	100,646	130,367
Contributions	25,528	22,455
Net assets released from restrictions used for operations	31,398	43,548
Total operating revenue and other support	1,550,574	1,524,674
Expenses		
Salaries, wages, and benefits	912,268	890,158
Supplies and other	406,281	395,072
Medical claims expense	83,853	90,496
Depreciation and amortization	93,084	78,911
Provision for insurance	16,971	20,472
Interest and amortization	29,310	19,981
Development expense	22,927	26,186
Total expenses	1,564,694	1,521,276
Operating (loss) income	(14,120)	3,398
Non-operating revenues and expenses		
Investment return, net	123,847	18,992
Realized and change in unrealized fair value of interest rate swaps	60	226
Inherent contribution from acquisition of HSC	-	98,542
Other non-operating income (loss), net	1,246	(281)
Total non-operating revenues and expenses	125,153	117,479
Excess of revenues over expenses	111,033	120,877
Released from restriction for property and equipment	2,519	1,018
Other changes in net assets without donor restrictions	(310)	(270)
Increase in net assets without donor restrictions	$ 113,242	$ 121,625

The accompanying notes are an integral part of these consolidated financial statements.

Children's National Medical Center and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2021 and 2020

(in thousands)	2021	2020
Net assets without donor restrictions		
Excess of revenues over expenses	$ 111,033	$ 120,877
Released from restriction for property and equipment	2,519	1,018
Other changes in net assets without donor restrictions	(310)	(270)
Increase in net assets without donor restrictions	113,242	121,625
Net assets with donor restrictions		
Contributions	36,797	41,338
Investment return, net	58,846	7,664
Released from restrictions	(33,917)	(44,566)
Change in value of split interest agreements	2,574	(867)
Loss from uncollectible pledges	(6,426)	(357)
Other changes in net assets with donor restrictions	160	1,263
Increase in net assets with donor restrictions	58,034	4,475
Change in net assets	171,276	126,100
Net assets		
Beginning of year	1,221,883	1,095,783
End of year	$ 1,393,159	$ 1,221,883

The accompanying notes are an integral part of these consolidated financial statements.

Children’s National Medical Center and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

(in thousands)	**2021**	**2020**
Cash flows from operating activities		
Change in net assets	$ 171,276	$ 126,100
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	93,084	78,911
Provision for uncollectible contributions	6,241	106
Loss on sale of assets	36	281
Amortization of deferred financing costs	253	216
Amortization of bond premium	(2,420)	(2,584)
Loss in PSV equity investment	9,680	11,243
Inherent contribution from acquisition of HSC	-	(98,733)
Net realized and change in unrealized gains on investments	(159,583)	(14,020)
Change in fair market value of interest rate swaps	(60)	(33)
Proceeds from restricted contributions and income received	(9,923)	(12,055)
Change in assets and liabilities		
Accounts receivable for patient services	(83,244)	(1,106)
Settlements due from third-party payors	14,305	(11,198)
Other current assets and inventory of supplies	(5,876)	(3,597)
Contributions and grants receivable	18,895	16,554
Interest in beneficial trusts	(2,574)	867
Right-of-use assets	10,937	13,742
Other noncurrent assets	(9,826)	(1,982)
Accounts payable	(465)	(15,056)
Accrued salaries and other expenses	42,652	37,545
Reserve for claims	2,702	6,879
Deferred revenue	997	(12,584)
Medical claims payable	(3,225)	2,037
Settlements due to third-party payors	(17,266)	10,036
Operating lease liabilities	(8,298)	(10,509)
Financing lease liabilities	664	-
Other noncurrent liabilities	9,515	464
Net cash, cash equivalents, and restricted cash provided by operating activities	78,477	121,524
Cash flows from investing activities		
Purchases of property and equipment	(163,679)	(199,035)
Proceeds from sales of property and equipment	309	-
Cash acquired through HSC member substitution	-	37,806
Purchases of investments	(651,163)	(668,975)
Sales of investments	576,606	710,933
Contribution to equity investment	(10,256)	(12,914)
Net cash, cash equivalents, and restricted cash used in investing activities	(248,183)	(132,185)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	301,272	-
Proceeds from line of credit	2,000	50,000
Payments on line of credit	(2,000)	(50,000)
Payments of long-term debt	(105,464)	(6,766)
Payments of debt issuance costs	(2,791)	-
Proceeds from restricted contributions and income received	9,923	12,055
Proceeds from financing lease incentives	1,228	9,696
Payments on financing lease obligations	(5,787)	(2,476)
Net cash, cash equivalents, and restricted cash provided by financing activities	198,381	12,509
Increase in cash, cash equivalents, and restricted cash	28,675	1,848
Cash, cash equivalents, and restricted cash		
Beginning of year	94,176	92,328
End of year	$ 122,851	$ 94,176
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 26,876	$ 25,378
Property and equipment in accounts payable	(19,138)	27,980
Property and equipment in exchange for other long-term debt	54,515	-

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

Organizational Structure

The Children's National Medical Center's ("Children's National") consolidated financial statements include the accounts of Children's Hospital (the "Hospital"); Children's Hospital Foundation (the "Foundation"); Children's National at Walter Reed, LLC ("CNWR"); Children's Research Institute ("CRI"); Safe Kids Worldwide ("Safe Kids"); Children's Pediatricians and Associates ("CP&A"); Children's National Health Network ("CNHN"); Pediatric Health Network ("PHN"); Children's School Services ("CSS"); Brainy Camps Association ("BCA"); the HSC Foundation and Subsidiaries ("HSC"); Bearacuda Reinsurance Company, Ltd. (the "Captive"); Building 52/53 NMTC Borrower LLC; Building 52/53 HTC Tenant LLC; Building 52/53 Managing Member LLC; Building 54 NMTC Borrower LLC; Building 54 HTC Tenant LLC; Building 54 Managing Member LLC; all referred to as the "Subsidiaries."

Children's National is a tax-exempt, nonstock corporation, which controls its subsidiary corporations through its authority to appoint the governing boards of the tax-exempt, nonstock subsidiaries or its stock ownership. Children's National and its subsidiaries provide health care services to infants, children, and youth in Washington, D.C., and the surrounding metropolitan area. The Hospital operates an acute care pediatric and teaching facility.

The Foundation supports and maintains the programs, services, and facilities of Children's National in part through solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt subsidiaries.

CNWR is a limited liability company organized for the purpose of holding certain real property conveyed by the United States Department of Defense to be used for public health purposes.

CRI is a research organization involved in providing services and support in connection with the delivery of health care services on behalf of the community.

Safe Kids is an organization involved in nonhospital pediatric health and safety activities.

CP&A is a limited liability corporation that operates for-profit physician practices. CP&A is owned 50% by Children's National and 50% by the Hospital.

CNHN is a for-profit physician hospital organization, of which Children's National is the sole shareholder.

PHN is a for-profit clinically integrated physician network, of which Children's National is the sole shareholder.

CSS is an organization that operates a school nurse program in the District of Columbia.

BCA is an organization that provides residential summer camps, support, and leadership programs for youth with chronic health conditions, of which the Hospital is the sole corporate member.

The Captive is a wholly owned captive insurance company established to assume general liability and malpractice risk for Children's National entities, effective August 1, 1997.

Building 52/53 NMTC Borrower LLC ("Building 52/53 Borrower"), a Washington, D.C., limited liability company, was formed to acquire, own, rehabilitate, lease, manage, and operate the property known as Building 52/53 in a manner that will qualify such rehabilitation for historic and new market rehabilitation tax credits to Section 47 of the Internal Revenue Code of 1986, as amended. The property is comprised of land and historic buildings located on the former campus of the Walter Reed Army Medical Center in Washington D.C. (the "WR Campus"). Building 52/53 is also located in a qualified census tract that meets certain income, unemployment and poverty level requirements and qualifies under the New Market Tax Credit Program as a qualified active low-income community business ("QALICB"). Through its ownership of Building 52/53 Managing Member LLC, CNMC holds a 90% interest in Building 52/53 Borrower. Building 52/53 Borrower follows a calendar based fiscal year.

Building 52/53 Managing Member LLC ("Building 52/53 MM"), a Washington D.C., limited liability company, is the managing member of Building 52/53 Borrower. Building 52/53 MM is a wholly owned subsidiary of Children's National and is taxed as a corporation. The member managers of Building 52/53 MM are officers and senior leaders of Children's National. As part of the New Market Tax Credit and Historic Tax Credit transactions, this separate, for-profit, single purpose entity was established to manage the Building 52/53 property to meet the QALICB requirements. Building 52/53 MM is the manager of the property and also the managing member of Building 52/53 HTC Tenant LLC, holding a 1% interest in Building 52/53 HTC Tenant LLC. Building 52/53 MM follows a calendar based fiscal year.

Building 52/53 HTC Tenant LLC ("Building 52/53 Tenant"), a Washington, D.C., limited liability company, was formed to lease, manage and operate property owned by Building 52/53 Borrower. Building 52/53 Tenant has made an equity investment in Building 52/53 Borrower and is also a member with a 10% interest. Building 52/53 Tenant consists of a managing member with 1% interest and an investor member with a 99% interest. Building 52/53 Tenant and Building 52/53 Borrower have executed a historic tax credit pass-through agreement pursuant to which Building 52/53 Borrower will elect under Section 50 of the Internal Revenue Code to pass through to Building 52/53 Tenant the federal tax credits to which it is entitled because of the historic building's rehabilitation project. Children's National meets the requirements for consolidation of the Building 52/53 Tenant through its ownership of the managing member (Building 52/53 MM) and control of Building 52/53 Tenant. The 99% interest held by an investor member is reflected as non-controlling interest. Building 52/53 Tenant follows a calendar based fiscal year.

Building 54 NMTC Borrower LLC ("Building 54 Borrower"), a Washington, D.C., limited liability company, was formed to acquire, own, rehabilitate, lease, manage, and operate the property known as Building 54 in a manner that will qualify such rehabilitation for historic rehabilitation tax credits pursuant to Section 47 of the Internal Revenue Code of 1986, as amended. The property is comprised of land and a historic building located on the WR Campus. Through its ownership of Building 54 Managing Member LLC, CNMC holds a 90% interest in Building 54 Borrower. Building 54 Borrower follows a calendar based fiscal year.

Building 54 Managing Member LLC ("Building 54 MM"), a Washington D.C., limited liability company, is the managing member of Building 54 Borrower. Building 54 MM is a wholly owned subsidiary of Children's National and is taxed as a corporation. The member managers of Building 54 MM are officers and senior leaders of Children's National. Building 54 MM is the manager of the property and also the managing member of Building 54 HTC Tenant LLC, holding a 1% interest in Building 54 HTC Tenant LLC. Building 54 MM follows a calendar based fiscal year.

Building 54 HTC Tenant LLC ("Building 54 Tenant"), a Washington, D.C., limited liability company, was formed to lease, manage and operate property owned by Building 54 Borrower. Building 54 Tenant has made an equity investment in Building 54 Borrower and is also a member with a 10% interest. Building 54 Tenant consists of a managing member with 1% interest and an investor member with a 99% interest. Building 54 Tenant and Building 54 Borrower have executed a historic tax credit pass-through agreement pursuant to which Building 54 Borrower will elect under Section 50 of the Internal Revenue Code to pass through to Building 54 Tenant the federal tax credits to which it is entitled because of the historic building's rehabilitation project. Children's National meets the requirements for consolidation of the Building 54

Tenant through its ownership of the managing member (Building 54 MM) and control of Building 54 Tenant. The 99% interest held by an investor member is reflected as non-controlling interest. Building 54 Tenant follows a calendar based fiscal year.

Children's National, Hospital, Foundation, CRI, Safe Kids, CSS, and BCA are not-for-profit organizations that qualify under Section 501(c)(3) of the Internal Revenue Code, and are therefore, not subject to tax under current income tax regulations.

HSC Membership Substitution

On September 1, 2019, Children's National and HSC entered into an affiliation agreement whereby Children's National became the sole corporate member of the HSC. The affiliation between Children's National and HSC stems from a long-term business relationship and shared objective: to improve quality, access, and coordination of care for patients and families across the care continuum. The entities that comprise HSC are as follows:

The HSC Foundation, a nonprofit corporation is organized to coordinate the activities of and provide support to The Hospital for Sick Children (the "Pediatric Center") Health Services for Children with Special Needs, Inc ("HSCSN"), a managed care organization, HSC Services, LLC and 2013 Holdings, Inc.

The Pediatric Center is a Washington, D.C., nonprofit corporation, formed as a pediatric specialty care hospital.

HSCSN is a Washington, D.C., nonprofit corporation, formed as a health plan that services children and young adults who are residing in Washington, D.C. and qualify for the federal Supplemental Security Income program ("SSI") or a Tax Equity and Fiscal Responsibility Act ("TEFRA") wavier.

2013 Holdings, Inc. is a Washington, D.C. nonprofit corporation, formed as a real estate holding company, to hold title to certain real and personal property. 2013 Holdings, Inc. was dissolved effective June 30, 2020.

HSC Services, LLC is a Washington D.C., limited liability company, formed as an intermediary holding company between the HSC Foundation and HSC Home Care, LLC, a Washington, D.C., limited liability company, formed as a Medicare and Medicaid certified home health agency that provides care for children who have complex health care needs and disabilities.

No consideration was paid by Children's National to become the sole member of HSC. This transaction was accounted for using the acquisition method of accounting, which required all assets and liabilities of HSC to be revalued at their fair value as of the acquisition date. The acquisition date fair values have been determined using various fair value techniques including independent appraisals for property and equipment, quotations from independent market sources for investments and debt, and independent actuarial projections for workers compensation, medical claims payable, and medical malpractice liabilities. The fair value of HSC assets was larger than its liabilities; and therefore, inherent contributions received were recorded by Children's National of $98.5 million.

The results of HSC's operations have been included in the statement of operations and changes in net assets commencing on the acquisition date. During the year ended June 30, 2020 excess of revenues of expenses attributable to HSC was $3.3 million excluding the inherent contribution. The assets, liabilities, and net assets of HSC on September 1, 2019 were as follows:

(in thousands)	
Cash and cash equiavalents	$ 37,648
Accounts receivable, net	11,513
Other current assets	8,865
Property and equipment, net	33,194
Investments	64,344
Other assets	9,854
Total assets assumed	$ 165,419
Accounts payable and other current liabilities	26,980
Medical claims payable	21,888
Long-term debt	8,415
Other liabilities	9,402
Total liabilities assumed	$ 66,685
Contribution without donor restrictions received	98,542
Contribution with donor restrictions received	191
Total contribution received	$ 98,733

The following table represents Children's National's proforma financial information as of June 30, 2020 assuming the acquisition of HSC had taken place on July 1, 2019. The proforma financial information may not be indicative of the actual results of operations if the transaction had been effective on July 1, 2019.

(in thousands)	**2020**
Revenues	$ 1,550,793
Expenses	1,547,746
Operating income	3,047
Nonoperating gains	19,443
Excess of revenues over expenses	22,490

2. Risk Factors

Children's National's ability to maintain or increase future revenues could be adversely impacted by: (1) future legislation, regulation, or other actions by federal, state, or District of Columbia agencies, which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for hospital services; (2) future legislation or adverse trends affecting the costs related to professional liability coverage; (3) changes in general and local economic conditions including the financial condition of the District of Columbia, the State of Maryland and the State of Virginia; and (4) a potential shortage of qualified doctors and other skilled healthcare professionals in the local employment market.

In December 2019, a novel strain of coronavirus, Coronavirus Disease 2019 ("COVID-19"), developed and has spread around the world, with resulting business and social disruption. Recent actions taken by Children's National to combat the spread COVID-19 have had an adverse effect on Children's National's operations. The extent to which COVID-19 impacts the operations of Children's National in the future will depend on the duration and severity of the outbreak as well Children's National's ability to contain its impact. These developments cannot be predicted with confidence and could have a negative effect on the current financial results of Children's National, including its operations and its investments. If the duration of the outbreak becomes extended or increases in severity, Children's National has available liquidity, as well as the ability to adjust capital expenditures and curtail certain discretionary operating expenses to mitigate the impact of COVID-19 on operating results.

In April 2020, the Department of Health and Human Services ("HHS") began distributing portions of its $175 billion stimulus funding appropriation to providers in response to the COVID-19 pandemic. In order to keep the distributed funds, provider relief payments require an attestation indicating that the recipient agrees to comply with certain terms and conditions, including use of the funds to offset lost revenues and increased expenses that have resulted from the pandemic. In addition to providing relief through a general allocation to most providers, HHS also distributed funding for targeted purposes, including to hospitals in "high impact" areas, in rural areas, and those considered "safety net" hospitals for uninsured patients. Children's National accounted for the provider relief funds using the contribution model of accounting. All terms and conditions of the relief fund award were met to recognize revenue and therefore, Children's National recorded $27.2 million and $53.0 million in other operating revenue in the accompanying Consolidated Statement of Operations for the year ended June 30, 2021 and 2020, respectively.

3. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation
The consolidated financial statements include the accounts of Children's National and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Cash and Cash Equivalents
Cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. Children's National has not experienced such losses on these funds.

Investments and Assets Whose Use is Limited

Investments consist primarily of money market funds, government securities, equity securities (including common trust funds), and mutual funds and are reported at fair value. Investments that management does not consider necessary for current operations are classified as long-term.

Investments in companies in which Children's National does not have control but has the ability to exercise significant influence over operating and financial policies are accounted for under the equity method of accounting and operating results are recorded within investment return, net on the Consolidated Statements of Operations. Dividends received are recorded as a reduction of the carrying amount of the investment.

Assets whose use is limited include cash and investments restricted under professional liability arrangements and debt agreements.

Restricted cash amounts included in short term assets whose use is limited represent amounts required to be set aside by debt or regulatory agreements. Restricted cash amounts included in assets whose use is limited represent amounts set aside to pay general and professional liability claims.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets to the amounts shown in the Consolidated Statements of Cash Flows as of June 30:

(in thousands)	2021	2020
Cash and cash equivalents	$ 120,683	$ 93,566
Short term assets whose use is limited	1,577	156
Assets whose use is limited	591	454
Cash, cash equivalents, and restricted cash	$ 122,851	$ 94,176

Investment Income

Investment income or loss including interest and dividends, net of investment management fees; realized gains and losses on investments; and unrealized gains and losses on equity securities is reported as non-operating revenue and is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

Income Taxes

Children's National is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such basis, the exempt entities will not incur any liability for federal income taxes, except for possible unrelated business income.

The Financial Accounting Standards Board's ("FASB") guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. The guidance defines the threshold for recognizing tax return positions in the consolidated financial statements as "more likely than not" that the position is sustainable, based on technical merits.

Children's National evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. There was no impact on Children's National's consolidated financial statements during the years ended June 30, 2021 and 2020, as Children's National has no uncertain tax positions.

Accounts Receivable, net

Patient accounts receivable consists primarily of amounts owed by various governmental agencies, insurance companies and patients. Children's National manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Children's National reports accounts receivable at an amount equal to the consideration it expects to receive in exchange for providing healthcare services to its patients, which is estimated using contractual provisions associated with specific payors, historical reimbursement rates and analysis of past experience to estimate potential adjustments. Children's National writes off amounts that have been deemed to be uncollectible because of circumstances that affect the ability of payors to make payments as they occur.

Inventories of Supplies

Inventories generally consist of medical and nonmedical supplies and are stated at the lower of cost or net realizable value, using the first-in, first-out method. The total inventory balance was $15.4 million and $13.1 million at June 30, 2021 and 2020, respectively.

Contributions and Grants

Unconditional promises to give cash and other assets are reported at fair value as contributions receivable at the date the promise is received. These promises are subject to annual donor approval and are restricted. Amounts due are recorded at the net realizable value discounted using a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received. An allowance for uncollectible pledges is recorded for pledges which may become uncollectible in future periods. Amounts deemed to be uncollectible have been written off. The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. The amounts Children's National will ultimately realize could differ from the amounts assumed in arriving at the present value and allowance for doubtful pledges. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. As of June 30, 2021 and 2020 conditional promises to give excluding those from grants, amounted to $44.7 million and $49.4 million, respectively.

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 met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Consolidated Statements of Operations as net assets released from restrictions used for operations. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Children's National and its subsidiaries receive various grants from Federal agencies and District of Columbia agencies for the purpose of furthering its mission of providing acute pediatric care, research and education. For the majority if its grants, Children's National accounts for them under the contribution model, which is outside the scope of ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). Revenue for these grants is recognized as expenses are incurred. Grants recognized under ASC 606 were $30.0 million and $29.6 million in the years ended June 30, 2021 and 2020, respectively.

Total conditional contributions from grants as of June 30, 2021 and 2020 were $62.8 million and $61.2 million, respectively. Revenue for these conditional contributions will be recognized in future periods when the conditions are met. The conditions related to these contributions are based on performance barriers, a right of return, and scope related conditions as outlined under the Uniform Guidance cost principles. Children's National has elected the simultaneous release option which allows a conditional restricted contribution to be recognized directly in net assets without donor restrictions if the condition and restriction is met in the same period that the revenue is recognized.

Loan Receivable

As part of the New Market Tax Credit and Historic Tax Credit transactions, Children’s Hospital made a leveraged loan to Children’s National NMTC Investment Fund, LLC in the amount of $13.5 million in June 2019. The loan bears interest at 1.3% with quarterly interest only payments due September 2019 through March 2026, followed by quarterly principal and interest payments of $160 thousand through June 2049.

New Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). ASU 2018-13 is intended to improve the effectiveness of disclosure requirements on fair value measurement. Amongst other changes, ASU 2018-13 removes: i) the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, ii) the requirement to disclose the policy for timing of transfers between levels, and iii) disclosure of the valuation processes for Level 3 fair value measurements. In addition, ASU 2018-13 modifies the disclosure requirements to require disclosure for investments in certain entities that calculated net asset value of the timing of liquidation of an investee’s assets and the date redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly and clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty of measurement as of the reporting date. The update is effective for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2019 with early adoption permitted. An entity is permitted to early adopt any removed or modified disclosures upon the issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. Children’s National adopted ASU 2018-13 during 2021 and modified its disclosures accordingly.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation expense on Children’s National’s property and equipment is recorded using the straight-line method, which allocates the cost of the tangible property equally over the estimated useful lives, beginning with the date the asset is placed in service. Below are the useful lives by asset category:

Buildings	25 - 40 years
Building improvements	9 - 20 years
Fixed equipment	10 - 15 years
Movable equipment	3 - 20 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any income earned. Repairs and maintenance are expensed as incurred. When property and equipment are retired, sold or otherwise disposed of, the asset’s carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Deferred Financing Costs

Financing costs incurred in connection with the issuance of long-term debt are deferred and amortized using the straight-line method, which approximates the effective interest rate method, over the period of time the debt is outstanding. Deferred financing costs are recorded in long-term debt on the Consolidated Balance Sheets. The amortization expense was approximately $0.3 million and $0.2 million for the years ended June 30, 2021 and 2020, respectively.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. Children’s National’s policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairments of long-lived assets for the years ended June 30, 2021 and 2020.

Interest in Beneficial Trusts

Children's National also receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable remainder trusts, charitable gift annuities and perpetual trusts. In all of these agreements, Children's National has an interest in the trust, but is not the trustee. When the trust's obligations to all beneficiaries expire, the remaining assets revert to Children's National to be used according to the donor's wishes.

Deferred Compensation Plan

Children's National maintains a deferred compensation plan for certain employees. As of June 30, 2021 and 2020, deferred compensation investments of $40.8 million and $31.0 million, respectively, included in other assets on the Consolidated Balance Sheets, represent investments held by Children's National under these deferred compensation agreements. Such amounts approximate Children's National's related liability to the employees and are included in other long-term liabilities.

Interest Rate Swaps

The value of the interest rate swap agreements entered into by Children's National is adjusted to fair value monthly at the close of each accounting period based upon quotations from market makers. The change in fair value, if any, is recorded in the Consolidated Statements of Operations. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Consolidated Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

Net Assets

Net assets without donor restrictions include undesignated amounts as well as amounts designated by the board for future capital and operating purposes. Net assets with donor restrictions are those whose use by Children's National has been limited by donors to a specific time period or purpose, including federal appropriations restricted for capital improvements. Net assets are released from donor restriction by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors. Also included in net assets with donor restrictions are those gifts that have been restricted by donors to be maintained by Children's National in perpetuity.

Charity Care

Children's National, in keeping with its mission and philosophy to extend quality care and compassionate service, recognizes that some patients are unable to compensate Children's National for their treatment either through third party coverage or their own resources. Accordingly, Children's National extends charity or free care to those patients who do not have the ability to meet their obligations. Children's National provides free care based on federal poverty income guidelines or when it is determined that the patients are unable to fulfill their obligations to Children's National. Children's National also provides assistance in helping patients obtain third party coverage through state Medicaid programs. Because Children's National does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to $5.4 million and $7.6 million for the years ended June 30, 2021 and 2020, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charge is calculated based on Children's National's total operating expenses divided by patient service revenue.

In addition to direct charity care, Children's National is committed to improving the health and well-being of children in the Washington, D.C., metropolitan area. Through programs of clinical intervention, community awareness, education and advocacy, Children's National strives to address the many challenges facing children and families today. Examples of programs addressing these challenges are the Community Pediatric Health Care Centers, school nursing services for District of Columbia Public Schools and District of Columbia Public Chartered Schools, Team Kid Power ("KIPOW"), DC Collaborative for Mental Health in Pediatric Primary Care, Health Access in Pediatrics ("DC MAP") Program, and services provided to children with AIDS.

Excess of Revenues Over Expenses
The Consolidated Statements of Operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include, among other items, contributions released from restrictions for property and equipment.

Use of Estimates
The preparation of financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during reporting period. Actual results could differ from these estimates. These significant estimates include, among others, estimated net realizable value of patient receivables, estimated third-party payor settlements, and accrued insurance costs.

Accrued Vacation
Children's National records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior period. The liability for accrued vacation was $37.5 million and $36.4 million as of June 30, 2021 and 2020, respectively, and is recorded in accrued salaries and other expenses.

Estimated Malpractice Costs
The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Reserve for Medical Malpractice Claims
Children's National's medical malpractice claims reserve is an estimate of payments to be made for claims losses incurred but not reported. The estimate was developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors. The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known, such adjustments are included in current operations.

Medical Claims Expense and Payable
HSCSN contracts with various health care providers for the provision of related medical care services to its members. The providers are compensated based on payment rates as specified in the provider agreements. Medical claims expense that has been reported in the accompanying Consolidated Statements of Operations includes an accrual for medical services incurred but not reported ("IBNR"). Medical claims expense is determined using a combination of methods including multiplying census times average daily rate for inpatient facilities, per-member-per-month for medical categories other than inpatient and, actual invoices for pharmacy and other vendors. IBNR is determined using the percentage of completion model analysis which uses paid claims to estimate the total dollar of claims outstanding at a given point in time.

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Children's National 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. Generally, Children's National bills the patient 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 National. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Children's National 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 receiving inpatient acute care services. Children's National 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 National 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 National has elected to apply the practical expedient provided in FASB ASC 606-10-50-14a, and therefore is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These performance obligations 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.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Children's National also provides services to uninsured patients. The transaction price for both uninsured patients, as well as insured patients with deductibles and coinsurance, is estimated 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. Children's National determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. Children's National determines its estimate of implicit price concessions based on historical collection experience with these classes of patients using a portfolio approach as a practical expedient. The portfolio approach is being used as Children's National has a large volume of similar contracts with similar classes of customers. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. Children's National reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of change. No significant amounts of revenues were recognized in the current year due to changes in the estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in the prior years. Subsequent changes that are determined to be the results of an adverse change in the patient's or third party payor's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the Consolidated Statements of Operations and Changes in Net Assets and was not significant for the years ended June 30, 2021 and 2020.

Children's National has agreements with third-party payors that provide for payments to Children's National at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed cost, discounted charges, and per diem payments. Contractual adjustments to patient service revenue were $1.8 billion and $1.6 billion for the years ended June 30, 2021 and 2020, respectively.

Approximately 43% and 47% of net patient service revenues were from Medicaid and Medicaid managed care programs in 2021 and 2020, respectively. Total reimbursements received for Graduate Medical Education ("GME") were $16.5 million in 2021 and $17.9 million in 2020. Federal GME is subject to appropriation each year.

Inpatient and outpatient services, defined capital and medical education costs related to beneficiaries are paid using a cost reimbursement methodology for Medicare and the Fee-for-Service Medicaid programs. These services are paid prospectively for DC Medicaid and Maryland Medicaid. For cost reimbursable items, Children's National is reimbursed at a tentative rate with final settlement determined after submission of the annual cost reports by Children's National and audits thereof by the fiscal intermediary. Children's National cost reports have been audited and settled by the Medicare intermediary through 2019 for all facilities. The Virginia Medicaid cost report is settled annually and is settled through 2020.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to interpretation. 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 National's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Children's National. In addition, the contracts Children's National has with commercial payors also provide for retroactive audit and review of claims.

Cost report settlements under reimbursement agreements with Medicare and Medicaid 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 National's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2021 and 2020.

The composition of net patient service revenues by payor for the years ended June 30, is as follows:

(in thousands)	**2021**	**2020**
Blue Cross	$ 265,110	$ 239,602
Commercial	12,608	6,420
Managed Care	308,356	306,990
Medicaid	489,002	512,002
Other	34,155	22,073
Self-pay	17,849	4,329
Total	$ 1,127,080	$ 1,091,416

Children's National has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Children's National's 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. However, Children's National does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Capitation Revenue and Receivable

HSCSN receives a monthly interim capitation rate per enrollee and recognizes capitation revenue from premiums in the period that a member is eligible for health care coverage. Revenue related to capitation premiums consists of the amount the District of Columbia has contracted to pay for the provision of health care benefits. HSCSN has accrued the difference between the actual monthly interim payment and the estimated reimbursement for the actual monthly enrollee population served.

HSCSN entered into a Child and Adolescent Supplemental Security Income Program ("CASSIP") agreement with the District of Columbia Department of Health Care Finance ("DHCF") to coordinate health care services for a defined group of Supplemental Security Income-eligible special needs children and youths. This indefinite-delivery indefinite-quantity contract is HSCSN's primary source of operating revenue. Under this agreement, DHCF pays HSCSN a fixed capitation amount based on the number of eligible participants enrolled in the program, subject to a final retroactive settlement. The contract requires an annual settlement process whereby DHCF and HSCSN share the benefits and risks associated with financial gains and losses of the managed care program, which are final settled through December 31, 2017. These amounts are included in due to third-party payers in the accompanying Consolidated Balance Sheets.

The capitation payment received by HSCSN has two components: one for administrative services and the second for medical services. The administrative services portion funds the management expenses of HSCSN, as well as the annual premium tax assessed by the District of Columbia, and factors in the potential for a 2% margin. The medical services portion pays for medical services (physician, hospital, pharmacy, home health, etc.), case management, utilization management, and quality oversight services.

The capitation payment is calculated based on the target medical claims ratio, which is the aggregate claims paid for the year for services covered, and medical management expenses as determined by Maryland's COMAR regulations. This medical services portion of HSCSN's capitation payment is subject to a risk sharing arrangement. If the total costs for medical services differs from the threshold specified in the CASSIP agreement, then the over/under outside of the base 2% corridor is shared between HSCSN and DHCF on a sliding scale, where HSCSN is at risk for a proportion of the overage for 50% or 100%, or benefits from the underage at a similar proportion.

HSCSN's third party receivables and payables result from this single contract with the DHCF. Termination of the contract or non-payment by the DHCF of the capitation revenue or risk receivable would have a material adverse effect on future operations and the liquidity of HSCSN. The current contract with DHCF expires in March 2022.

HSCSN's ability to maintain and/or increase future revenue could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee for service networks and capitated fee arrangements; (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the inability of the District of Columbia, Maryland and Virginia Medicaid programs to correctly process medical claims and ultimately pay the System for services it provides to their patients; (4) the inability to collect on revenue earned for services provided; and (5) possible changes in general and local economic conditions, which could cause volatility in and/or limitations to access to capital and debt markets.

Other Revenue

In addition to net patient service and capitation revenue, Children's National also recognizes revenue related to other transactions. These transactions include revenues from parking, pharmacy 340b programs, collaborative arrangements with other healthcare providers, transport and PSV. Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied. Revenue from these transactions is measured as the amount of consideration Children's National expects to receive from those services.

4. Fair Value Measurements

Children's National follows the FASB's guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements, and accordingly, this guidance does not require any new fair value measurements.

The guidance discusses valuation techniques such as the market approach, cost approach and income approach. This guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date.

The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1 Observable inputs such as quoted market prices for identical assets or liabilities in active markets;

Level 2 Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and

Level 3 Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below has been valued utilizing the market approach.

The following tables present the financial instruments carried at fair value grouped by hierarchy level:

(in thousands)	June 30, 2021		
	Quoted In Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total Fair Value**
Assets			
Investments			
Cash and short term investments	$ 52,005	$ -	$ 52,005
Fixed income securities	374,506	35,896	410,402
Equity securities	622,166	425	622,591
Real estate investments	-	6,125	6,125
Total investments	1,048,677	42,446	1,091,123
Deferred compensation money market funds	2,035	-	2,035
Deferred compensation mutual funds	38,771	-	38,771
Beneficial interests held by 3rd party	-	1,145	1,145
Perpetual trusts held by 3rd party	-	8,617	8,617
Short term assets whose use is limited by terms of debt agreement	2,232	-	2,232
Total assets at fair value	$ 1,091,715	$ 52,208	$ 1,143,923
Investment funds at NAV			4,427
			$ 1,148,350
Liabilities			
Deferred compensation liability	$ -	$ 42,007	$ 42,007
Total liabilities at fair value	$ -	$ 42,007	$ 42,007

(in thousands)	June 30, 2020		
	Quoted In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Assets			
Investments			
Cash and short term investments	$ 153,135	$ -	$ 153,135
Fixed income securities	313,659	42,524	356,183
Equity securities	342,782	425	343,207
Real estate investments	-	6,125	6,125
Total investments	809,576	49,074	858,650
Deferred compensation money market funds	2,605	-	2,605
Deferred compensation mutual funds	27,170	-	27,170
Beneficial interests held by 3rd party	-	783	783
Perpetual trusts held by 3rd party	-	6,405	6,405
Short term assets whose use is limited by terms of debt agreement	664	-	664
Total assets at fair value	$ 840,015	$ 56,262	$ 896,277
Investment funds at NAV			2,965
			$ 899,242
Liabilities			
Deferred compensation liability	$ -	$ 31,037	$ 31,037
Interest rate swaps	-	60	60
Total liabilities at fair value	$ -	$ 31,097	$ 31,097

The following tables present information for investments measured at net asset value ("NAV") as of June 30:

(in thousands) Description	NAV at June 30, 2021	Redemption frequency	Redemption notice period	Receipt of proceeds	June 30, 2021 unfunded commitments
Limited partnerships	$ 1,240	Ranges from illiquid to quarterly	60 days	Ranges from 95% on redemption date, to within 3 years of redemption date	3,784
Funds of funds	3,187	Ranges from monthly to annually	Ranges from 5 to 65 days	Ranges from 95% on redemption date, to within one year of redemption date	$407
	$ 4,427				

(in thousands) Description	NAV at June 30, 2020	Redemption frequency	Redemption notice period	Receipt of proceeds	June 30, 2020 unfunded commitments
Limited partnership	$ 84	Ranges from illiquid to quarterly	60 days	Ranges from 95% on redemption date, to within 3 years of redemption date	None
Funds of funds	2,881	Ranges from monthly to annually	Ranges from 5 to 65 days	Ranges from 95% on redemption date, to within one year of redemption date	$427
	$ 2,965				

Following is a description of the Children's National valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that Children's National has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. Children's National does not adjust the quoted price for such assets and liabilities. Level 1 investments include cash and cash equivalents including money market accounts, fixed income and equity securities, and mutual funds that are traded in an active exchange market. Cash equivalents are considered short term investments.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Level 2 investments include certain equity mutual funds, real estate investments, corporate bond funds, US government obligations, and federal agency obligations.

Certain investments are measured at NAV, which consist of limited partnerships and fund of funds. The limited partnerships represent domestic and offshore private placement securities. The fund of funds are investment funds, which invest in other investment funds to reach their desired investment objectives. The master funds are investment funds, which invest substantially all of their assets through a "master feeder" structure to pool investment capital raised by both U.S. and overseas investors into one central vehicle. The investment fund investments have varying liquidity terms from illiquid to annual liquidity.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

The fair value of the obligations under deferred compensation agreements approximates the fair value of the other investment assets, which are determined using quoted market prices. These assets are comprised of mutual funds and money market funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Children's National believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

5. Property and Equipment

The components of property and equipment as of June 30 are summarized below:

(in thousands)	**2021**	**2020**
Land	$ 37,651	$ 27,506
Buildings and building improvements	1,345,936	986,842
Fixed and movable equipment	380,542	320,378
	1,764,129	1,334,726
Less: Accumulated depreciation	(939,210)	(856,626)
	824,919	478,100
Construction in progress	72,744	302,987
Property and equipment, net	$ 897,663	$ 781,087

Depreciation expense for the years ended June 30, 2021 and 2020 was $93.1 million and $78.9 million, respectively.

Children's National owns various buildings at the Children's National Research and Innovation Campus for which an environmental retirement obligation was recorded. The balances of such liabilities were $1.3 million and $1.2 million as of June 30, 2021 and 2020, respectively.

During the year ended June 30, 2020, Children's National retired $7.0 million of fully depreciated long-lived assets determined to have no future value. During the year ended June 30, 2021, Children's National sold or disposed of long-lived assets with a net book value of $0.3 million.

6. Contributions Receivable

Unconditional promises to give as of June 30 were as follows:

(in thousands)	**2021**	**2020**
Less than one year	$ 33,044	$ 48,494
One to five years	28,693	30,601
More than five years	8,445	13,670
	70,182	92,765
Less: Discount	(2,779)	(3,822)
Allowance for uncollectible contributions	(1,032)	(1,216)
Contribution receivable, net	$ 66,371	$ 87,727

Contributions receivable greater than one year in time are discounted using a rate of return that a market participant would expect to receive over the period at the date the pledge is received. The discount rate used is commensurate with the risk involved and ranges from 0.25% to 5.75% based on the date the pledge is made. Loss from uncollectible pledges was $6.4 million and $0.3 million for the years ended June 30, 2021 and 2020, respectively.

7. Investments and Assets Whose Use is Limited

The composition and fair values of investments and assets whose use is limited, as reported on the accompanying Consolidated Balance Sheets, at June 30 is as follows:

(in thousands)	**2021**	**2020**
Limited by terms of debt agreements		
Cash and short term investments	$ 2,232	$ 664
Total assets whose use is limited by terms of debt agreements	$ 2,232	$ 664
Limited for professional liability claims		
Cash and short term investments	$ 591	$ 454
Fixed income securities	20,340	18,157
Equity securities	16,779	15,287
Total funded professional liability	$ 37,710	$ 33,898
Investments		
Cash and short term investments	$ 51,413	$ 152,681
Fixed income securities	390,061	338,026
Equity securities	605,814	327,920
Equity method investments	6,284	5,708
Real estate investments	6,125	6,125
Alternative investments	4,427	2,965
Total Investments	$ 1,064,124	$ 833,425
Interest in Beneficial Trusts		
Beneficial interests held by 3rd party	$ 1,145	$ 783
Perpetual trusts held by 3rd party	8,617	6,405
Total interest and beneficial trusts	$ 9,762	$ 7,188

Investments included approximately $332.7 million and $259.1 million at June 30, 2021 and 2020, respectively, of funds which are restricted by donors for specific programs or for capital improvements.

Investment returns consisted of the following:

(in thousands)	June 30, 2021		
	Without Donor Resctrions	**With Donor Restrictions**	**Total**
Dividends and interest income	$ 23,190	$ 9,599	$ 32,789
Loss on equity method investments	(9,680)	-	(9,680)
Realized gains	21,290	2,830	24,120
Investment income	34,800	12,429	47,229
Change in net unrealized gain/(loss) on investments	89,047	46,417	135,464
Total investment returns, net	$ 123,847	$ 58,846	$ 182,693

(in thousands)	June 30, 2020		
	Without Donor Resctrions	**With Donor Restrictions**	**Total**
Dividends and interest income	$ 18,679	$ 5,201	$ 23,880
Loss on equity method investments	(11,243)	-	(11,243)
Realized gains	66,453	28,890	95,343
Investment income	73,889	34,091	107,980
Change in net unrealized gains on investments	(54,897)	(26,427)	(81,324)
Total investment returns, net	$ 18,992	$ 7,664	$ 26,656

Realized gains and losses are calculated by comparing proceeds upon sale of an investment to its original cost, or its cost less any adjustment recorded for other-than-temporary loss on investments where applicable. The change in unrealized gains and losses on investments reflects the increase or decrease during the period in the difference between the fair value and the carrying amount of securities. Interest and dividend earnings (net of expenses), net realized gains and losses on investments and the net change in unrealized gains and losses on investments are considered investment income and are included and primarily recorded in nonoperating revenue and expenses, net on the Consolidated Statement of Operations.

In October of 2013, Children's National and Inova Health Care Services ("Inova") partnered in a joint venture to create Pediatric Specialists of Virginia ("PSV"). PSV is a Virginia limited liability company which provides high-quality pediatric specialty care to the children of Northern Virginia through clinical excellence, innovation, education, research, and family-centered care. Children's National has a 50% investment in PSV, and it is accounted for under the equity method. Inova owns the remaining 50% of PSV.

PSV is governed by an eight-member Management Committee of which Children's National has four members. Any action by the Management Committee must be approved by a majority of the members, provided that it includes an affirmative vote by both one Inova representative and one Children's National representative.

Children's National's investment in PSV was $6.3 million and $5.7 million as of June 30, 2021 and 2020, respectively. Children's National's contributed cash of $10.3 million and $12.9 million to PSV during the year ended June 30, 2021 and 2020, respectively. Children's National's share of losses from PSV as of June 30, 2021 and 2020 were $9.7 million and $11.2 million, respectively and are included within investment income in the Consolidated Statements of Operations.

The total assets, liabilities, and members' equity as of June 30, 2021 and 2020, and the total revenue, expenses and net loss for the years then ended for PSV are as follows:

(in thousands)	2021	2020
Total assets	$ 26,434	$ 23,918
Total liabilities	13,866	12,501
Members' equity	12,568	11,417
Total revenue	35,838	31,704
Total expenses	55,197	53,619
Net loss	$ (19,359)	$ (21,915)

8. Liquidity and Availability

As of June 30, 2021, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

(in thousands)	2021	2020
Financial assets		
Cash and cash equivalents	$ 120,683	$ 93,566
Short term investments	21,207	96,038
Short term assets whose use is limited by terms of debt agreement	2,232	509
Accounts receivable for patient services, net	290,910	207,666
Settlements due from third-party payors	9,736	24,041
Current contributions receivable without donor restrictions, net	3,887	3,690
Grants receivable	11,879	15,659
Total financial assets available within one year	460,534	441,169
Liquidity resources:		
Bank line of credit	100,000	100,000
Total financial assets and liquidity resources available within one year	$ 560,534	$ 541,169

As part of the Children's National's liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due. To manage liquidity, Children's National maintains a $100.0 million line of credit, as discussed in Note 10, *Debt.*

In addition, Children's National has board designated investments which are available for general expenditure upon Board approval. The amount of board designated investments was $671.1 million and $427.7 million as of June 30, 2021 and 2020, respectively.

Through its budgeting process, the CNMC Board authorizes access and release of board designated funds, transfer among CNMC and its affiliates, and transfers to operating accounts by taking action that approves the use of the funds. The CNMC Board also maintains banking and signature policies that authorize individual signers to transfer investment funds to the operating accounts. The CNMC Board may also rely upon the review and recommendations of its Finance and Investment Committee and the Board of its Affiliates.

9. Derivative Instruments

Children's National recognizes its derivative instruments as either assets or liabilities in the Consolidated Balance Sheets at fair value in accordance with relevant accounting guidance.

The Center entered into a swap agreement in conjunction with its Bank Qualified Revenue Bonds. Pursuant to the swap agreement, the Center, pays the counterparty a fixed interest rate equal to 3.83% per annum and receives interest at a variable rate of 80% of the one-month USD-LIBOR plus 1.25% per annum. The total notional amount of the swap agreement was $4.2 million as of June 30, 2020. The swap matured in December 2020.

Classification of derivatives in Consolidated Balance Sheets *(in thousands)*	**Fair Market Value** 2021	2020
Derivatives not designated as hedging instruments		
Liability on interest rate swap	$ -	$ 60

Classification of derivatives gain/(loss) in Consolidated Statements of Operations *(in thousands)*	**Amount of Gain/(Loss) Recognized in Excess of Revenue Over Expense** 2021	2020
Derivatives not designated as hedging instrument		
Unrealized gain on interest rate swap	$ 60	$ 33
Realized gain/(loss) on interest rate swap	-	193
Net realized and unrealized gain/(loss) on swap agreement	$ 60	$ 226

10. Debt

As of June 30, long-term debt consisted of the following:

(in thousands)	**2021**	**2020**
Series 2015 bonds maturity between July 15, 2019 and July 15, 2044, interest rates ranging from 4.00% to 5.00%	$ 350,230	$ 357,735
Series 2020 bonds, interest only at 2.93%, maturing on July 15, 2050	300,000	-
Bank Qualified Revenue Bonds	7,775	8,375
Loan payable to Bank of America	-	96,944
Other long-term debt	57,963	-
Notes payable	18,820	18,820
Total debt	734,788	481,874
Unamortized premiums and discounts, net	24,317	26,737
Unamortized debt issuance costs	(9,873)	(4,744)
	749,232	503,867
Less: Current portion	(11,303)	(13,858)
Total long-term debt	$ 737,929	$ 490,009

Series 2015 Bonds
In September 2015, the Children's National Obligated Group ("Obligated Group") borrowed from the District of Columbia (the "District") the proceeds of a series of tax-exempt revenue refunding bonds ("Series 2015 Bonds") issued by the District in the principal amount of $374.0 million. The Obligated Group consists of Children's Hospital, CNWR (joined September 2016), and the Foundation. The Series 2015 Bonds were sold at a premium of $39.8 million which is being amortized using the effective interest method. The amortization expense for the years ended June 30, 2021 and 2020 was $2.4 million and $2.6 million, respectively. The proceeds were used to advance refund the outstanding Series 2008 and Series 2005 Bonds and pay the cost of issuance associated with the Series 2015 Bonds. The Series 2005 Bonds and the Series 2008 Bonds ($139.5 million and $248.6 million outstanding as of the advance refunding date, respectively) were issued or refinanced as tax-exempt revenue bonds with fixed interest rates and a final maturity date of July 2035 and July 2044, respectively. The Series 2005 Bonds and the Series 2008 Bonds each had a call provision where the bonds could not be redeemed until July 2018. On July 15, 2018 the bonds were redeemed for $394.2 million, including interest.

The Series 2015 Bonds are comprised of four tranches:

- $195,030,000 5.00% Serial Bonds due July 15, 2016 through July 15, 2035
- $40,315,000 4.00% Term Bonds due July 15, 2040
- $50,000,000 5.00% Term Bonds due July 15, 2040
- $88,615,000 5.00% Term Bonds due July 15, 2044

Series 2020 Bonds
In August 2020, the Obligated Group issued the Children's Hospital Series 2020 Taxable Bonds ("Series 2020 Bonds") in the principal amount of $300.0 million. The proceeds from the sale of the Series 2020 Bonds were used to finance general corporate purposes of the Obligated Group, refinance the Bank of America Loan and pay expenses in conjunction with the issuance of the Series 2020 Bonds. The Series 2020 Bonds bear interest at a fixed rate of 2.93 percent per annum and mature on July 15, 2050 with interest-only payments due January 15 and July 15 of each year. Children's National paid $2.7 million of debt issuance costs for the Series 2020 Bonds during the year ended June 30, 2021.

The most restrictive covenant for the Series 2015 and 2020 Bonds requires the Obligated Group to maintain a minimum debt service coverage ratio of 1.2. The Obligated Group was in compliance with this covenant as of June 30, 2021.

Bank of America Loan
In March 2013, the Hospital entered into a loan agreement with Bank of America ("BoA") to borrow $75.0 million. In June 2017, the loan agreement was amended and extended the maturity date of the loan to June 2020. Interest payments of LIBOR plus 44 basis points were due on the first of each month and the principal was to be due on the maturity date. The proceeds from the borrowing were to be used for general business purposes including increasing its cash reserve. In conjunction with the master borrowing agreement, BoA requires compliance with predetermined debt coverage ratios and a minimum cash balance.

In June 2019, the Hospital entered into an amended loan agreement with BoA for $100.0 million and extended the maturity date of the loan to June 1, 2024. Interest is accrued at the LIBOR Daily Floating Rate plus 54 basis points. The amended agreement requires payments of principal and interest, which are due monthly beginning August 1, 2019. The additional $25 million in borrowing was used to terminate Children's National's 2005 interest rate swap. The BoA loan was repaid in August 2020.

Bank Qualified Revenue Bonds
The HSC Pediatric Center is obligated under Bank Qualified Revenue Bonds, in the original principal amount of $11,525,000, which were scheduled to mature (subject to prior redemption) on January 1, 2035. The bank had the option to terminate the loan and call the debt on December 17, 2020. Principal payments were made annually, and interest payments were made monthly. The variable interest rate on the bonds was the lesser of the bank rate as determined in accordance with the indenture and the maximum rate permitted by law. In April 2020, the loan was refinanced through the same bank for the amount outstanding at that date of $8,475,000. The refinanced loan has a 15-year term with scheduled monthly principal payments of $50,000 and interest payments. The variable interest rate is equal to 79% of the sum of the 1-month London Inter-bank Offer Rate ("LIBOR") plus 1.45%, as defined.

Notes Payable
On June 20, 2019, CITI NMTC SUBSIDIARY CDE XXXIV, LLC, a Delaware limited liability company, issued two loans to Building 52/53 Borrower providing historic and new market rehabilitation tax credit financing for two buildings and certain real property located at 7115 and 7125 13th Place, NW, Washington, D.C. known as Walter Reed Building 52 and Building 53.

The first loan, Promissory Note A1 in the amount of $6,132,174, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September and December. Upon the conclusion of the interest only period payments in the amount of $74,758, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

The second loan, Promissory Note B1, in the amount of $2,687,826, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September and December. Upon the conclusion of the interest only period payments in the amount of $32,768, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

On June 20, 2019, NTCIC-CNWR, LLC, a Delaware limited liability company, issued two loans to Building 52/53 Borrower providing historic and new market rehabilitation tax credit financing for Walter Reed Building 52 and Building 53.

The first loan, Promissory Note A2 in the amount of $7,363,526, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September and December. Upon the conclusion of the interest only period payments in the amount of $89,770, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

The second loan, Promissory Note B2 in the amount of $2,636,474, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September and December. Upon the conclusion of the interest only period payments in the amount of $32,142, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

The notes are collateralized by Building 52/53 Borrower's property and the improvements. Building 52/53 Borrower may not encumber, transfer ownership, relocate or otherwise act so as to decrease the value of all, or any portion of, the property without prior written consent. The notes are guaranteed by Children's National.

Other Long-Term Debt
In September 2020, Children's Hospital was conveyed title to certain property and land located in Prince George's County, MD that it previously leased from a third-party developer under an operating lease. In exchange for deed and title to the property, Children's Hospital entered into a lease-leaseback transaction with an unrelated third party. Children's National guarantees the lease payments made by Children's Hospital. For accounting purposes, this transaction was accounted for as an in-substance net financing as a lease does not exist with the unrelated third party, that is, the right to control the use of the asset was not conveyed to the third party both during and after the leaseback transaction. Children's National recorded other long-term debt, net of debt issuance costs, in the amount of $55.8 million, assets of $54.5 million and removed the existing operating lease liability and right-of-use assets of $30.2 million and $28.3 million, respectively from its Consolidated Balance Sheet as of the transaction date. No gain or loss was recorded as a result of this transaction during the year ended June 30, 2021. The other-long term debt is amortized based on the monthly lease payments using the effective interest method at an interest rate of 3.14%.

Lines of Credit
On January 23, 2020, the Hospital entered into a $50.0 million line of credit agreement with JP Morgan Chase Bank, N.A. The line of credit accrued interest at a variable rate equal to the 1 Month LIBOR plus 30 basis points and a commitment fee of 6 basis points. This agreement expired on January 30, 2021.
On March 27, 2020, the Hospital entered into an additional $50.0 million line of credit with JP Morgan Chase Bank, N.A. The line of credit accrued interest at a variable rate equal to the 1 Month LIBOR plus 30 basis points and a commitment fee of 10 basis points. This agreement expired on September 30, 2020.

On January 29, 2021, Children's Hospital entered into a $100.0 million revolving Line of Credit with Capital One, N.A. for a one-year term (the Capital One credit agreement). The Capital One credit agreement bears interest at a variable rate equal to the 1 Month LIBOR plus 40 basis points and a commitment fee of 25 basis points. There were no amounts outstanding as of June 30, 2021.

Maturities and sinking fund requirements of long-term debt outstanding for the next 5 years and thereafter as of June 30, 2021 were as follows:

(in thousands)

2022	$	9,036
2023		9,499
2024		10,046
2025		10,564
2026		11,099
Thereafter		684,544
	$	734,788

Total interest expense was $29.3 million and $20.2 million for the years ended June 30, 2021 and 2020, respectively. Cash paid for interest was $26.9 million and $25.4 million for the years ended June 30, 2021 and 2020, respectively, and includes capitalized interest for construction projects of $0.9 million and $2.8 million, net of investment income for the year ended June 30, 2021 and 2020, respectively.

11. Endowments

Children's National endowment consists of individual donor restricted endowment funds for a variety of purposes. In addition, contributions receivables, split interest agreements, and other net assets have been designated for Children's National endowment.

The Board of Trustees of Children's National has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation of 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 National classifies net assets with donor restrictions (a time restriction in perpetuity), (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 as net assets with donor restrictions (a time restriction in perpetuity) is classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated for expenditure by Children's National in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Children's National considers the following factors in making a determination to appropriate or accumulate endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of Children's National and the donor-restricted endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of Children's National; and
(7) The investment policies of Children's National.

Endowment net asset composition by type of fund for the years ended June 30 were as follows:

(in thousands)	2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds			
Historical gift value	$ -	$ 164,725	$ 164,725
Appreciation	-	98,304	98,304
Total endowment funds	$ -	$ 263,029	$ 263,029

(in thousands)	2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds			
Historical gift value	$ -	$ 157,602	$ 157,602
Appreciation	-	47,280	47,280
Total endowment funds	$ -	$ 204,882	$ 204,882

Changes in endowment net assets for the years ended June 30 were as follows:

(in thousands)	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 204,882	$ 204,882
Investment return, net	-	58,892	58,892
Redesignation of net assets	-	1,006	1,006
Gifts	-	7,097	7,097
Loss from unollectible pledges	-	(1,234)	(1,234)
Appropriation for expenditure	-	(7,614)	(7,614)
Endowment net assets, end of year	$ -	$ 263,029	$ 263,029

(in thousands)	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 196,137	$ 196,137
Investment return, net	-	7,707	7,707
Redesignation of net assets	-	(100)	(100)
Gifts	-	8,344	8,344
Appropriation for expenditure	-	(7,206)	(7,206)
Endowment net assets, end of year	$ -	$ 204,882	$ 204,882

Description of the amounts classified as net assets with donor restrictions held in perpetuity (endowments only) as of June 30 is a follows:

(in thousands)	2021	2020
Patient care	$ 67,230	$ 61,327
Health-related education	6,521	6,481
Research	90,974	89,794
	$ 164,725	$ 157,602

Endowment Funds with Deficits
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. There were no deficits in donor gift amounts as of June 30, 2021 and 2020.

Return Objectives and Risk Parameters
Children's National has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. Children's National expects its endowment funds over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives
To achieve its long-term rate of return objectives, Children's National relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Children's National targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives
The Board of Trustees of Children's National determines the method to be used to appropriate endowment funds for expenditure. Calculations were performed for individual endowment funds at a rate of 4.5% of the three-year rolling average using a monthly average over the most recent 36 months ended June 30th. The corresponding calculated spending allocations were distributed annually in the first month of the fiscal year from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board considered the expected long-term rate of return on its endowment. Accordingly, over the long term, Children's National expects the current spending policy to allow its endowment to grow at between 3-8% annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

12. Net Assets with Donor Restrictions

Net assets with donor restrictions, consisting of cash, investments, and contributions receivable, were available for the following purposes at June 30:

(in thousands)	2021	2020
Patient care	$ 192,941	$ 143,659
Building expansion and equipment	3,303	3,774
Health-related education	9,248	7,595
Research	31,104	31,020
Endowment funds	164,725	157,602
Charitable remainder trusts	1,145	782
	$ 402,466	$ 344,432

13. Insurance

Children's National self-insures for malpractice and general liability claims up to a retention limit and carries excess coverage above that limit. On August 1, 1997, Children's National established the Captive as a wholly owned captive insurance company to assume the retained portion of medical malpractice, employment, and general liability claims of Children's National arising on or after August 1, 1997. Cash transfers to the Captive are based on premium levels established by the Captive's management, as well as Cayman Islands statutory capital requirements.

The reserve for claims shown in the accompanying Consolidated Balance Sheets represents the reserve for asserted and unasserted malpractice and comprehensive general liability claims against Children's National and its affiliated physicians. The reserve for claims is estimated by management using information supplied by legal counsel and an independent actuarial firm.

Malpractice and other claims in excess of the reserve for claims have been asserted against Children's National, and it is possible that actual claim liabilities could differ from estimated amounts in the near term. However, management and legal counsel do not believe that the ultimate cost of resolving asserted and unasserted claims related to events having occurred through June 30, 2021 are materially in excess of the reserve for claims and malpractice insurance coverage.

Children's National also self-insures for employee health and dental claims. In addition, Children's National has a deductible of $500 thousand per occurrence for workers' compensation. Amounts accrued in the accompanying Consolidated Balance Sheets for the estimated cost of health and dental care claims incurred, including estimates for incurred but not reported amounts, were approximately $7.6 million and $5.7 million as of June 30, 2021 and 2020, respectively. Amounts accrued for workers compensation claims were approximately $3.1 million and $2.8 million as of June 30, 2021 and 2020, respectively.

14. Benefit Plans

Children's National sponsors defined contribution retirement plans that are available to substantially all employees. Children's National makes contributions to the plans on behalf of each participant based on the employee's level of contribution. The cost of the plan to Children's National was approximately $29.0 million and $27.6 million as of June 30, 2021 and 2020, respectively.

Children's National also has incentive compensation plans, based on achievement of organizational and individual goals, and deferred compensation arrangements. Assets and liabilities related to the deferred compensation arrangements are included in other noncurrent assets and other noncurrent liabilities in the accompanying Consolidated Balance Sheets in the amount of approximately $44.9 million and $35.1 million as of June 30, 2021 and 2020, respectively.

15. Leases

Children's National determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, current portion of operating lease liabilities and operating lease liabilities on the Consolidated Balance Sheet. Financing leases are included in financing right-of-use asset, current portion of finance lease liabilities and finance lease liabilities on the Consolidated Balance Sheet. Leases are recognized based on the present value, net of the future minimum lease payments over the lease term using the organization's incremental borrowing rate based on the information available at commencement and include both lease and nonlease components. The ROU asset is derived from the lease liability and also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Certain lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability balances. Lease agreements may include one or more renewal options which are at the organization's sole discretion. Children's National does not consider the renewal options to be reasonably likely to be exercised, therefore they are not included in ROU assets and lease liabilities. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term for operating leases.

In accordance with ASC 842, *Leases*, Children's National has elected to not recognize ROU assets and lease liabilities for short-term leases with a lease term of 12 months or less. Children's National recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as all other leases.

Children's National is obligated under various operating and financing real property and equipment leases for medical and administrative offices and equipment with remaining terms of 1 to 27 years, some of which include options to extend or options to terminate the leases. Several of these leases contain escalation clauses, with fixed-rate increases ranging from 2%-4%.

Lease expense for the years ended June 30 are as follows:

(in thousands)

	2021	**2020**
Financing lease expense:		
Amortization of right-of-use assets	$ 10,115	$ 9,911
Interest on lease liabilities	5,434	4,782
Opearting lease expense	15,800	20,618
Short-term lease expense	2,945	4,284
Variable lease expense	3,527	3,288
Total lease cost	$ 37,821	$ 42,883

Commitments related to non-cancellable operating and financing for the years ending June 30 are as follows:

(in thousands)	Operating Leases	Financing Leases
2022	$ 16,400	$ 14,074
2023	13,401	14,463
2024	13,348	14,745
2025	12,282	15,145
2026	11,969	15,507
2027 and thereafter	61,292	124,182
Total future minimum payments	128,692	198,116
Less: Present Value Discount	(26,825)	(50,634)
Present value of net minimum lease payments	$ 101,867	$ 147,482

The weighted average remaining lease term and discount rate as of June 30, 2021 is as follows:

Weighted average remaining lease terms (in years):	
Operating Leases	9.62
Financing Leases	12.31
Weighted average discount rate:	
Operating Leases	4.27%
Financing Leases	3.81%

For the year ended June 30, supplemental cash flow information related to leases was as follows:

(in thousands)

Cash paid (received) for amounts included in the measurement of lease liabilities:

	2021	2020
Operating cash flows for operating leases	$ 15,247	$ 15,351
Operating cash flows for financing leases	3,977	2,942
Financing cash flows for financing leases	5,787	7,220
Right of assets obtained in exchange for lease liablities		
Operating leases	$ 1,286	$ 32,424
Financing leases	1,418	104,347

16. Concentrations of Credit Risk

Financial instruments which subject Children's National to concentrations of credit risk consist primarily of cash and cash equivalents, investments, assets who use is limited and patient accounts receivable.

Children's National grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. The mix of accounts receivable, net was as follows:

	2021	2020
Managed Care/Commercial	45 %	50 %
Maryland Medicaid	25	24
District of Columbia Medicaid	12	8
Virginia Medicaid and other	16	17
Self-pay	2	1
	100 %	100 %

17. Functional Expenses

Children’s National provides health care services to children both within and outside its geographical service area. Children’s National’s consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest and other occupancy costs, are allocated to a function based on a square footage or units of service basis. Expenses related to providing these services are as follows:

(in thousands)	June 30, 2021				
	Support Services		Program Services		
Operating expenses:	**Fundraising**	**Management and General**	**Patient Care**	**Research**	**Total**
Salaries, wages and benefits	$ 5,398	$ 196,104	$ 655,907	$ 54,859	$ 912,268
Supplies & other	1,380	152,398	218,521	33,982	406,281
Medical claims expense	-	-	83,853	-	83,853
Depreciation & amortization	14	41,962	39,438	11,670	93,084
Insurance	-	10,379	6,592	-	16,971
Interest	-	8,417	20,727	166	29,310
Development expense	21,536	1,391	-	-	22,927
Total operating expenses	$ 28,328	$ 410,651	$ 1,025,038	$ 100,677	$ 1,564,694

(in thousands)	June 30, 2020				
	Support Services		Program Services		
Operating expenses:	**Fundraising**	**Management and General**	**Patient Care**	**Research**	**Total**
Salaries, wages and benefits	$ 4,896	$ 185,729	$ 643,972	$ 55,561	$ 890,158
Supplies & other	3,769	173,066	198,176	20,061	395,072
Medical claims expense	-	-	90,496	-	90,496
Depreciation & amortization	-	29,982	38,943	-	68,925
Insurance	32	9,191	11,281	9,954	30,458
Interest	-	5,655	13,786	-	19,441
Development expense	20,530	5,656	-	540	26,726
Total operating expenses	$ 29,227	$ 409,279	$ 996,654	$ 86,116	$ 1,521,276

18. Noncontrolling Interests

The following table reconciles the carrying amounts of Children's National's controlling interest and the noncontrolling interests for net assets without donor restrictions:

(in thousands)	Total	Controlling Interest	Noncontrolling Interests
Balance at June 30, 2019	$ 755,826	$ 748,234	$ 7,592
Excess of revenues over expenses	120,877	120,877	-
Released from restrictions for property and equipment	1,018	1,018	-
Other changes in net assets without donor restrictions	(270)	(270)	-
Balance at June 30, 2020	$ 877,451	$ 869,859	$ 7,592
Excess of revenues over expenses	111,033	111,259	(226)
Released from restrictions for property and equipment	2,519	2,519	-
Other changes in net assets without donor restrictions	(310)	(310)	-
Balance at June 30, 2021	$ 990,693	$ 983,327	$ 7,366

19. Commitments and Contingencies

Children's National is involved in litigation and regulatory investigations arising in the ordinary course of business. After consulting with legal counsel, management estimates that these matters will be resolved without material adverse effect on Children's National's future financial position or results from operations.

20. Subsequent Events

Subsequent events have been evaluated by management through October 8, 2021 which is the date the consolidated financial statements were issued. There were no events that require adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Supplementary Consolidating Information

pwc

Report of Independent Auditors

To Board of Trustees of Children's National Medical Center

We have audited the consolidated financial statements of Children’s National Medical Center its subsidiaries as of and for the year ended June 30, 2021 and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

October 8, 2021

Children’s National Medical Center and Subsidiaries
Supplementary Consolidating Balance Sheet
June 30, 2021

	Obligated group														
(in thousands)	Hospital	CNWR	Foundation	Eliminations	Obligated Group Total	CRI	Safekids	CP&A	CSS	PHN/CNHN	HSC	Other	Captive	Eliminations	Consolidated Total
Assets															
Current assets															
Cash and cash equivalents	$ 56,790	$ -	$ 1,734	$ -	$ 58,524	$ 120	$ -	$ (597)	$ (7)	$ -	$ 59,992	$ 954	$ 1,697	$ -	$ 120,683
Short term investments	21,207	-	-	-	21,207	-	-	-	-	-	-	-	-	-	21,207
Short term assets whose use is limited by terms of debt ag	1,927	-	-	-	1,927	-	-	-	-	-	305	-	-	-	2,232
Accounts receivable, net	289,889	-	-	-	289,889	-	-	1,314	-	-	5,463	-	-	(5,756)	290,910
Settlements due from third-party payors	8,607	-	-	-	8,607	-	-	-	-	-	1,129	-	-	-	9,736
Contributions receivable, net	-	-	32,347	-	32,347	-	211	-	-	-	-	-	-	-	32,558
Grant receivable	1,884	-	-	-	1,884	6,557	102	-	3,336	-	-	-	-	-	11,879
Inventories of supplies	14,636	-	-	-	14,636	-	-	661	-	-	75	-	-	-	15,372
Prepaid expenses and other	70,717	-	-	-	70,717	1	75	105	1,300	993	2,117	1,513	318	(32,627)	44,512
Total current assets	465,657	-	34,081	-	499,738	6,678	388	1,483	4,629	993	69,081	2,467	2,015	(38,383)	549,089
Property and equipment, net	588,305	100,824	120	-	689,249	7,282	738	2,830	-	-	32,432	170,942	-	(5,810)	897,663
Right of use assets, financing	112,754	-	-	-	112,754	-	-	655	-	-	106	-	-	-	113,515
Right of use assets, operating	75,039	-	-	-	75,039	-	2,985	4,479	-	-	6,721	-	-	-	89,224
Assets whose use is limited by professional liability claims	592	-	-	-	592	-	-	-	-	-	-	-	37,118	-	37,710
Investments	958,388	-	678,287	(726,154)	910,521	41,351	2,748	-	-	-	101,261	-	28,388	(41,352)	1,042,917
Contributions receivable, net	-	-	33,813	-	33,813	-	-	-	-	-	-	-	-	-	33,813
Loan receivable	94,225	-	-	-	94,225	-	-	-	-	-	-	-	-	(80,729)	13,496
Interest in beneficial trusts	-	-	9,762	-	9,762	-	-	-	-	-	-	-	-	-	9,762
Due from affiliates	515,718	-	12,645	(74,559)	453,804	-	-	-	-	-	-	-	-	(453,804)	-
Other	59,536	-	-	-	59,536	-	-	1,351	-	-	-	285	-	(14,550)	46,622
Total noncurrent assets	2,404,557	100,824	734,627	(800,713)	2,439,295	48,633	6,471	9,315	-	-	140,520	171,227	65,506	(596,245)	2,284,722
Total assets	$ 2,870,214	$ 100,824	$ 768,708	$ (800,713)	$ 2,939,033	$ 55,311	$ 6,859	$ 10,798	$ 4,629	$ 993	$ 209,601	$ 173,694	$ 67,521	$ (634,628)	$ 2,833,811
Liabilities and Net Assets															
Current liabilities															
Accounts payable	$ 41,746	$ 3,050	$ -	$ -	$ 44,796	$ 414	$ -	$ 301	$ 66	$ -	$ 1,890	$ 14,340	$ 1,058	$ (13,059)	$ 49,806
Accrued salaries and other expenses	189,177	8	710	-	189,895	2,713	173	2,603	2,266	126	3,589	2,506	-	(2,506)	201,365
Current portion of reserve for claims	27,208	-	-	-	27,208	-	-	-	-	-		-	22,817	(22,817)	27,208
Settlements due to third-party payors	1,689	-	-	-	1,689	-	-	-	-	-	3,339	-	-	-	5,028
Deferred revenue	3,688	1,114	196	-	4,998	9,614	(4)	-	-	-	-	-	482	(250)	14,840
Medical claims payable	-	-	-	-	-	-	-	-	-	-	20,700	-	-	-	20,700
Current portion of long-term debt	10,703	-	-	-	10,703	-	-	-	-	-	600	-	-	-	11,303
Current portion of financing lease liabilities	7,761	-	-	-	7,761	-	-	160	-	-	25	-	-	-	7,946
Current portion of operating lease liabilities	5,250	-	374	-	5,624	158	591	1,344		-	-	-		-	7,717
Total current liabilities	287,222	4,172	1,280	-	292,674	12,899	760	4,408	2,332	126	30,143	16,846	24,357	(38,632)	345,913
Noncurrent liabilities															
Long-term debt	712,487	-	-	-	712,487	-	-	-	-	-	7,080	18,362	-	-	737,929
Long-term financing lease liabilities	138,535	-	-	-	138,535	-	-	919	-	-	82	-	-	-	139,536
Long-term operating lease liabilities	78,788	-	(374)	-	78,414	(158)	3,824	4,306	-	-	7,764	-	-	-	94,150
Reserve for claims	77,128	-	-	-	77,128	-	-	-	-	-	1,143	-	14,301	(14,301)	78,271
Due to affiliates	-	74,559	-	(74,559)	-	362,611	418	27,640	2,925	3,622	56,587	1	-	(453,804)	-
Interest rate swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other long-term liabilities	40,648	1,267	296	-	42,211	-	-	1,351	-	-	1,291	80,729	-	(80,729)	44,853
Total noncurrent liabilities	1,047,586	75,826	(78)	(74,559)	1,048,775	362,453	4,242	34,216	2,925	3,622	73,947	99,092	14,301	(548,834)	1,094,739
Total liabilities	1,334,808	79,998	1,202	(74,559)	1,341,449	375,352	5,002	38,624	5,257	3,748	104,090	115,938	38,658	(587,466)	1,440,652
Net assets (deficit)															
Without donor restrictions - controlling interest	1,177,475	20,826	368,223	(368,223)	1,198,301	(361,392)	(1,103)	(27,826)	(628)	(2,755)	105,288	50,390	28,863	(5,811)	983,327
Without donor restrictions - noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	7,366	-	-	7,366
With donor restrictions	357,931	-	399,283	(357,931)	399,283	41,351	2,960	-	-	-	223	-	-	(41,351)	402,466
Total net assets (deficit)	1,535,406	20,826	767,506	(726,154)	1,597,584	(320,041)	1,857	(27,826)	(628)	(2,755)	105,511	57,756	28,863	(47,162)	1,393,159
Total liabilities and net assets (deficit)	$ 2,870,214	$ 100,824	$ 768,708	$ (800,713)	$ 2,939,033	$ 55,311	$ 6,859	$ 10,798	$ 4,629	$ 993	$ 209,601	$ 173,694	$ 67,521	$ (634,628)	$ 2,833,811

Children’s National Medical Center and Subsidiaries
Supplementary Consolidating Statement of Operations
Year Ended June 30, 2021

(in thousands)	Obligated Group Hospital	Obligated Group CNWR	Obligated Group Foundation	Obligated Group Eliminations	Obligated Group Total	CRI	Safekids	CP&A	CSS	PHN/CNHN	HSC	Other	Captive	Eliminations	Total
Operating revenue and other support															
Net patient service revenue	$ 1,112,055	$ -	$ -	$ -	$ 1,112,055	$ -	$ (17)	$ 27,498	$ -	$ -	$ 20,384	$ -	$ -	$ (32,840)	$ 1,127,080
Capitation revenue	-	-	-	-	-	-	-	-	-	-	176,260	-	-	-	176,260
Grant revenue	11,113	-	-	-	11,113	57,468	225	779	20,077	-	-	-	-	-	89,662
Other operating revenue	145,794	85	274	(3,940)	142,213	415	1,312	866	-	1,721	1,178	2,441	10,904	(60,404)	100,646
Contributions	1,017	-	23,483	-	24,500	-	1,002	-	-	-	26	-	-	-	25,528
Net assets released from restrictions used for operations	17,583	-	1,880	-	19,463	8,218	3,684	-	-	-	33	-	-	-	31,398
Total operating revenue and other support	1,287,562	85	25,637	(3,940)	1,309,344	66,101	6,206	29,143	20,077	1,721	197,881	2,441	10,904	(93,244)	1,550,574
Expenses															
Salaries, wages, and benefits	768,219	306	-	-	768,525	53,269	2,702	18,334	16,856	1,717	50,865	-	-	-	912,268
Supplies and other	347,513	4,624	-	(3,940)	348,197	43,611	3,385	12,513	2,791	1,453	36,286	141	1,595	(43,691)	406,281
Medical claims expense	-	-	-	-	-	-	-	-	-	-	116,693	-	-	(32,840)	83,853
Depreciation and amortization	83,703	1,240	-	-	84,943	2,290	119	450	-	-	3,469	1,813	-	-	93,084
Provision for insurance	17,228	-	-	-	17,228	60	-	214	33	-	24	-	10,316	(10,904)	16,971
Interest and amortization	26,880	59	-	-	26,939	-	-	43	-	-	254	2,074	-	-	29,310
Development expense	-	-	22,927	-	22,927	-	-	-	-	-	-	-	-	-	22,927
Total expenses	1,243,543	6,229	22,927	(3,940)	1,268,759	99,230	6,206	31,554	19,680	3,170	207,591	4,028	11,911	(87,435)	1,564,694
Operating income (loss)	44,019	(6,144)	2,710	-	40,585	(33,129)	-	(2,411)	397	(1,449)	(9,710)	(1,587)	(1,007)	(5,809)	(14,120)
Non-operating revenues and expenses															
Investment return, net	20,114	-	73,177	-	93,291	-	-	-	-	-	16,498	-	14,058	-	123,847
Realized and change in unrealized fair value of interest rate swaps	-	-	-	-	-	-	-	-	-	-	60	-	-	-	60
Inherent contribution from acquisition of HSC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-operating loss, net	241	-	-	-	241	-	-	-	-	-	1,005	-	-	-	1,246
Total non-operating revenues and expenses	20,355	-	73,177	-	93,532	-	-	-	-	-	17,563	-	14,058	-	125,153
Excess (deficiency) of revenues over expenses	$ 64,374	$ (6,144)	$ 75,887	$ -	$ 134,117	$ (33,129)	$ -	$ (2,411)	$ 397	$ (1,449)	$ 7,853	$ (1,587)	$ 13,051	$ (5,809)	$ 111,033

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Balance Sheet – The HSC Foundation and Subsidiaries
Year Ended June 30, 2021

(in thousands)	The HSC Foundation	The HSC Pediatric Center	Health Services for Children with Special Needs, Inc.	HSC Home Care, LLC	2013 Holdings, Inc.	Total
Assets						
Current assets						
Cash and cash equivalents	$ 10,305	$ (4)	$ 49,691	$ -	$ -	$ 59,992
Short term assets whose use is limited by terms of debt agreement	-	-	305	-	-	305
Accounts receivable, net	-	3,943	-	1,520	-	5,463
Settlements due from third-party payors	-	1,129	-	-	-	1,129
Inventories of supplies	-	75	-	-	-	75
Prepaid expenses and other	401	532	1,151	33	-	2,117
Total current assets	10,706	5,675	51,147	1,553	-	69,081
Property and equipment, net	371	28,308	3,742	11	-	32,432
Right of use assets, financing			106			106
Right of use assets, operating	-	2,827	3,448	446	-	6,721
Investments	54,583	47	46,631	-	-	101,261
Total noncurrent assets	54,954	31,182	53,927	457	-	140,520
Total assets	$ 65,660	$ 36,857	$ 105,074	$ 2,010	$ -	$ 209,601
Liabilities and Net Assets						
Current liabilities						
Accounts payable	$ 3	$ 383	$ 1,494	$ 10	$ -	$ 1,890
Accrued salaries and other expenses	(21)	800	2,611	199	-	3,589
Settlements due to third-party payors	-	3,847	(508)	-	-	3,339
Medical claims payable	-	-	20,700	-	-	20,700
Current portion of long-term debt	-	600	-	-	-	600
Current Portion of Finance Lease Liabilities			25			25
Total current liabilities	(18)	5,630	24,322	209	-	30,143
Noncurrent liabilities						
Long-term debt	-	7,080	-	-		7,080
Long-term Finance Lease Liabilities			82			82
Long-term operating lease liabilities	-	3,338	3,966	460	-	7,764
Reserve for claims	-	1,029	91	23	-	1,143
Due to affiliates	(15,448)	36,768	44,458	(9,191)	-	56,587
Interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	1,291	-	-	-	-	1,291
Total noncurrent liabilities	(14,157)	48,215	48,597	(8,708)	-	73,947
Total liabilities	(14,175)	53,845	72,919	(8,499)	-	104,090
Net assets (deficit)						
Without donor restrictions - controlling interest	79,835	(17,210)	32,154	10,509	-	105,288
With donor restrictions	-	223	-	-	-	223
Total net assets (deficit)	79,835	(16,987)	32,154	10,509	-	105,511
Total liabilities and net assets (deficit)	$ 65,660	$ 36,857	$ 105,074	$ 2,010	$ -	$ 209,601

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Statement of Operations – The HSC Foundation and Subsidiaries
Year Ended June 30, 2021

(in thousands)	The HSC Foundation	The HSC Pediatric Center	Health Services for Children with Special Needs, Inc.	HSC Home Care, LLC	2013 Holdings, Inc.	HSC Eliminations	Total
Operating revenue and other support							
Net patient service revenue	$ -	$ 25,751	$ -	$ 9,679	$ -	$ (15,046)	$ 20,384
Capitation revenue	-	-	176,260	-	-	-	176,260
Other operating revenue	-	676	76	426	-	-	1,178
Total Unrestricted Contributions	-	26	-	-	-	-	26
Net assets released from restrictions used for operations	-	33	-	-	-	-	33
Total operating revenue and other support	-	26,486	176,336	10,105	-	(15,046)	197,881
Expenses							
Salaries, wages, and benefits	724	22,191	20,596	7,354	-	-	50,865
Supplies and other	595	15,259	17,942	2,490	-	-	36,286
Medical claims expense	-	-	131,739	-	-	(15,046)	116,693
Depreciation and amortization	425	1,506	1,531	7	-	-	3,469
Provision for insurance	-	6	14	4	-	-	24
Interest and amortization	71	180	3	-	-	-	254
Total expenses	1,815	39,142	171,825	9,855	-	(15,046)	207,591
Operating income (loss)	(1,815)	(12,656)	4,511	250	-	-	(9,710)
Non-operating revenues and expenses							
Investment return, net	11,507	10	4,981	-	-	-	16,498
Realized and change in unrealized fair						-	
value of interest rate swaps	-	60	-	-	-	-	60
Inherent contribution from acquisition of HSC	-	605	400	-	-	-	1,005
Other non-operating loss, net	-	-	-	-	-	-	-
Total non-operating revenues and expenses	11,507	675	5,381	-	-	-	17,563
Excess (deficiency) of revenues over expenses	$ 9,692	$ (11,981)	$ 9,892	$ 250	$ -	$ -	$ 7,853

1. Basis of Presentation—Consolidating Supplementary Information

The consolidating supplementary information ("consolidating information") presented on pages 44-47 was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and results of operations, changes in net assets and cash flows of the individual companies within Children's National and is not a required part of the consolidated financial statements. The individual companies within Children's National as presented within the consolidating information are disclosed within Note 1 to the consolidated financial statements.