Children's National Medical Center and Subsidiaries

Consolidated Financial Statements and Supplementary Consolidating Information
June 30, 2020 and 2019

Children’s National Medical Center and Subsidiaries
Index
June 30, 2020 and 2019

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Report of Independent Auditors

To the 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, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and 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, 2020 and June 30, 2019, 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.

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Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, Children's National changed the manner in which it accounts for leases in 2020. Our opinion is not modified with respect to the matter.

PricewaterhouseCoopers LLP

McLean, VA
October 16, 2020

Children's National Medical Center and Subsidiaries
Consolidated Balance Sheets
June 30, 2020 and 2019

(in thousands)	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 93,566	$ 71,929
Short term investments	96,038	30,197
Short term assets whose use is limited	664	19,694
Accounts receivable, net	207,666	195,047
Settlements due from third-party payors	24,041	7,714
Contributions receivable, net	47,929	56,895
Grant receivable	15,659	16,945
Inventories of supplies	13,069	11,964
Prepaid expenses and other	40,939	36,958
Total current assets	539,571	447,343
Noncurrent assets		
Property and equipment, net	781,087	612,565
Right of use assets, financing	123,440	-
Right of use assets, operating	127,168	-
Assets whose use is limited	33,898	30,860
Investments	737,387	766,054
Contributions receivable, net	39,798	46,206
Loan receivable	13,496	13,496
Interest in beneficial trusts	7,188	8,055
Other	36,601	34,619
Total noncurrent assets	1,900,063	1,511,855
Total assets	$ 2,439,634	$ 1,959,198

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, 2020 and 2019

(in thousands)	2020	2019
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 69,409	$ 48,435
Accrued salaries and other expenses	158,713	126,574
Current portion of reserve for claims	26,715	24,710
Settlements due to third-party payors	22,294	1,226
Deferred revenue	13,843	26,427
Medical claims payable	23,925	-
Current portion of long-term debt	13,858	5,879
Current portion of capital lease obligations	-	1,130
Current portion of financing lease liabilities	4,525	-
Current portion of operating lease liabilities	7,656	-
Total current liabilities	340,938	234,381
Noncurrent liabilities		
Long-term debt	490,009	498,332
Long-term capital lease obligations	-	24,532
Long-term financing lease liabilities	143,962	-
Long-term operating lease liabilities	131,382	-
Reserve for claims	76,062	68,955
Interest rate swaps	60	2
Other long-term liabilities	35,338	37,213
Total noncurrent liabilities	876,813	629,034
Total liabilities	1,217,751	863,415
Net Assets		
Without donor restrictions - attributable to Children's National	869,859	748,234
Without donor restrictions - noncontrolling interests	7,592	7,592
Total net assets without donor restrictions	877,451	755,826
With donor restrictions	344,432	339,957
Total net assets	1,221,883	1,095,783
Total liabilities and net assets	$ 2,439,634	$ 1,959,198

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, 2019 and 2018

(in thousands)	2020	2019
Operating revenue and other support		
Net patient service revenue	$ 1,091,416	$ 1,090,598
Capitation revenue	150,782	-
Grant revenue	86,106	87,310
Other operating revenue	130,367	65,376
Contributions	22,455	24,645
Net assets released from restrictions used for operations	43,548	42,876
Total operating revenue and other support	1,524,674	1,310,805
Expenses		
Salaries, wages, and benefits	890,158	813,124
Supplies and other	395,072	348,488
Medical claims expense	90,496	-
Depreciation and amortization	78,911	65,100
Provision for insurance	20,472	15,192
Interest and amortization	19,981	18,728
Development expense	26,186	27,016
Total expenses	1,521,276	1,287,648
Operating income	3,398	23,157
Non-operating revenues and expenses		
Investment return, net	18,992	19,664
Realized and change in unrealized fair value of interest rate swaps	226	(7,626)
Inherent contribution from acquisition of HSC	98,542	-
Other non-operating loss, net	(281)	(890)
Total non-operating revenues and expenses	117,479	11,148
Excess of revenues over expenses	120,877	34,305
Unrealized gain on investments	-	7,398
Contributions from noncontrolling interests	-	7,592
Released from restriction for property and equipment	1,018	1,508
Other changes in net assets without donor restrictions	(270)	(2,477)
Increase in net assets without donor restrictions	$ 121,625	$ 48,326

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, 2020 and 2019

(in thousands)	2020	2019
Net assets without donor restrictions		
Excess of revenues over expenses	$ 120,877	$ 34,305
Unrealized gain on investments	-	7,398
Contributions from noncontrolling interests	-	7,592
Released from restriction for property and equipment	1,018	1,508
Other changes in net assets without donor restrictions	(270)	(2,477)
Increase in net assets without donor restrictions	121,625	48,326
Net assets with donor restrictions		
Contributions	41,338	38,130
Investment return, net	7,664	11,046
Released from restrictions	(44,566)	(44,384)
Change in value of split interest agreements	(867)	(301)
Loss from uncollectible pledges	(357)	(13,193)
Other changes in net assets with donor restrictions	1,263	2,482
Increase (decrease) in net assets with donor restrictions	4,475	(6,220)
Change in net assets	126,100	42,106
Net assets		
Beginning of year	1,095,783	1,053,677
End of year	$ 1,221,883	$ 1,095,783

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, 2020 and 2019

(in thousands)	2020	2019
Cash flows from operating activities		
Change in net assets	$ 126,100	$ 42,106
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	78,911	65,100
Provision for uncollectible contributions	106	12,950
Loss on sale of assets	281	890
Amortization of deferred financing costs	216	185
Amortization of bond premium	(2,584)	(2,621)
Loss in PSV equity investment	11,243	9,942
Inherent contribution from acquisition of HSC	(98,733)	-
Net realized and change in unrealized gains on investments	(14,020)	(22,779)
Change in fair market value of interest rate swaps	(33)	5,048
Contributions from noncontrolling interests	-	(7,592)
Proceeds from restricted contributions and income received	(12,055)	(6,814)
Change in assets and liabilities		
Accounts receivable for patient services	(1,106)	(14,553)
Settlements due from third-party payors	(11,198)	(208)
Other current assets and inventory of supplies	(3,597)	(6,405)
Contributions and grants receivable	16,554	10,008
Interest in beneficial trusts	867	302
Right-of-use assets	13,742	-
Other noncurrent assets	(1,982)	(4,966)
Accounts payable	(15,056)	10,084
Accrued salaries and other expenses	37,545	5,791
Reserve for claims	6,879	5,060
Deferred revenue	(12,584)	(468)
Medical claims payable	2,037	-
Settlements due to third-party payors	10,036	(29)
Operating lease liabilities	(10,509)	-
Other noncurrent liabilities	464	(3,202)
Net cash, cash equivalents, and restricted cash provided by operating activities	121,524	97,831
Cash flows from investing activities		
Purchases of property, plant and equipment	(199,035)	(91,339)
Proceeds from sales of property, plant and equipment	-	1,000
Loan paid to Children's National NMTC Investment Fund, LLC	-	(13,496)
Cash acquired through HSC member substitution	37,806	-
Settlement of interest rate swap	-	(24,164)
Purchases of investments	(668,975)	(275,641)
Sales of investments	710,933	240,251
Contribution to equity investment	(12,914)	(7,879)
Net cash, cash equivalents, and restricted cash used in investing activities	(132,185)	(171,268)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	43,820
Proceeds from line of credit	50,000	-
Payments on line of credit	(50,000)	-
Payments of long-term debt	(6,766)	(3,290)
Payments of debt issuance costs	-	(447)
Contributions from noncontrolling interests	-	7,592
Proceeds from restricted contributions and income received	12,055	6,814
Proceeds from financing lease incentives	9,696	-
Payments on financing lease obligations	(2,476)	-
Payments on capital lease obligations	-	(334)
Net cash, cash equivalents, and restricted cash provided by financing activities	12,509	54,155
Increase (decrease) in cash, cash equivalents, and restricted cash	1,848	(19,282)
Cash, cash equivalents, and restricted cash		
Beginning of year	92,328	111,610
End of year	$ 94,176	$ 92,328
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 25,378	$ 22,108
Capital lease obligations for new property and equipment	-	(20,244)
Property, plant and equipment in accounts payable	27,980	6,958

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 National Advocacy and Public Policy, Inc. ("CNAPPI"); 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.

CNAPPI is an organization involved in addressing the advocacy mission and community benefit activities of Children's National. CNAPPI was dissolved effective June 30, 2019.

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, CNAPPI, 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 contimuum. 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.

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 equivalents	$ 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 and 2019 assuming the acquisition of HSC had taken place on July 1, 2018. The proforma financial information is not necessarily indiciative of the results of operations as they would have been had the transaction been effective on July 1, 2018.

(in thousands)	**2020**	**2019**
Revenues	$ 1,550,793	$ 1,533,113
Expenses	1,547,746	1,505,315
Operating income	3,047	27,798
Nonoperating gains	19,443	16,993
Excess of revenues over expenses	22,490	44,791

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 $100 billion stimulus funding appropriation (CARES Act) to providers in response to the COVID-19 pandemic. Children's National received $53.0 million in general distributions in April 2020. 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. 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 $53.0 million in other operating revenue in the accompanying consolidated statement of operations for the year ended June 30, 2020. Children's National recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as publicly available interpretations governing the funding issued by the HHS at June 30, 2020.

In addition to providing relief through a general allocation to most providers, Children's National also received an additional $27.2 million of CARES Act targeted distributions in August 2020 as part of HHS' funding to hospitals in "high impact" areas, in rural areas, and those considered "safety net" hospitals for uninsured patients.

In September 2020, HHS issued new reporting requirements for the CARES Act provider relief funding. The new requirements first require Children's National and its subsidiaries to identify healthcare related expenses attributable to coronavirus that another source has not reimbursed. If those expenses do not exceed the funding received, Children's National and its subsidiaries will need to demonstrate that the remaining provider relief funds were used for a negative change in calendar year 2020 patient care operating income compared to calendar year 2019. These new reporting requirements are considered a nonrecognized subsequent event under ASC 855. HHS is entitled to recoup amounts in excess of the negative change in patient care operating income reported net of healthcare related expenses attributable to coronavirus. Due to these new reporting requirements, it is reasonably possible that amounts recorded under CARES Act provider relief fund by Children's National may change in future periods.

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 all 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.

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

(in thousands)	2020	2019
Cash and cash equivalents	$ 93,566	$ 71,929
Short term assets whose use is limited	156	19,694
Assets whose use is limited	454	705
Cash, cash equivalents, and restricted cash	$ 94,176	$ 92,328

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.

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, 2020 and 2019, as Children's National has no uncertain tax positions.

Accounts Receivable, net

Patient accounts receivable consist 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 $13.1 million and $12.0 million at June 30, 2020 and 2019, 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. 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, 2020 and 2019, conditional promises to give excluding those from grants, amounted to $8.7 million and $4.5 million, respectively. 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.

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.* Revenue for these grants is recognized as expenses are incurred.

Total conditional contributions from grants as of June 30, 2020 were $55.6 million. 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 on June 20, 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 January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financials Liabilities.* ASU 2016-01 addresses accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Entities that are not considered public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The amendments in ASU 2016-01 are effective for years beginning after December 15, 2018, and early adoption is permitted. Children's National early adopted the provisions of this standard for the fiscal year ended June 30, 2016 that no longer requires disclosure of the fair value of financial instruments carried at amortized cost. Effective for fiscal year 2020, unrealized gains and losses on investments were classified within excess of revenues over expenses within total non-operating revenues and expenses.

In February 2016, the FASB issued ASU 2016-02, *Leases* and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 842"). Children's National adopted ASU 842, as amended, on July 1, 2019. ASC 842 requires the recognition of all leases, including operating leases, with a term greater than twelve months on the balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. All leases that existed at the effective date were recognized and measured using a modified retrospective approach without restating prior comparative periods. Children's National elected the package of practical expedients, which permitted Children's National not to reassess prior conclusions about lease identification, lease classification, and classification of initial direct costs. Children's National did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable. On July 1, 2019, Children's National recognized operating right of use assets of \$110.1 million, and corresponding operating lease liabilities of \$120.2 million on its consolidated balance sheet. Additionally, Children's National reclassified \$21.5 million of plant, property and equipment and \$25.7 million of capital lease liabilities to financing right of use assets and finanincg lease liabilities, respectively. The recognition represented a material noncash investing activity that affected the amount reported in other changes in asset and liabilities on the consolidated statement of cash flows. The adoption did not have a material impact on the consolidated statement of operations.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent to alleviate diversity in practice. Children's National adopted this standard effective July 1, 2019 and its adoption did not have a material impact on the Consolidated Statements of Cash Flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the classification and presentation of changes in restricted cash in the statement of cash flows. The guidance requires reporting entities to explain the changes in the consolidated total of restricted and unrestricted cash and cash equivalent balances in the statement of cash flows. Children's National adopted this standard effective July 1, 2019 on a retrospective basis. Refer to the Investments and Assets Who Use is Limited policy footnote for the nature of amounts to be considered to be restricted cash equivalents and reconciliation to the Statement of Cash Flows.

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 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, iii) disclosure of the valuation processes for Level 3 fair value measurements, and iv) the requirement for nonpublic entities to disclose the changes in unrealized gains and losses included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. In addition, ASU 2018-13 modifies the disclosure requirements to: i) allow nonpublic companies to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities as an alternative to reconciling the opening balances to the closing balances of recurring Level 3 fair value measurements, and ii) 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. 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 is evaluating the impact of this update on the consolidated financial statements beginning in fiscal year 2021.

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	30 - 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 included in non-operating revenues and expenses.

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 $182.2 thousand and $185.1 thousand for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

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.

Other Long-Term Liabilities

Children's National entered into a favorable cash deferral contact with Cerner, Inc. ("Cerner") related to expenses associated with the Bear Institute in September 2013. The Bear Institute is a purchased services information technology agreement where Cerner manages IT functionality for operational services and capital equipment acquisitions. As an incentive, the cash flows for the agreement are significantly deferred towards the latter portion of the seven-year agreement. The liability due to Cerner under this arrangement was $1.5 million and $7.4 million as of June 30, 2020 and 2019, respectively, and is recorded in other long-term liabilities.

Deferred Compensation Plan

Children's National maintains a deferred compensation plan for certain employees. As of June 30, 2020 and 2019, deferred compensation investments of $31.0 million and $26.1 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. As of June 30, 2020 and 2019, $877.5 million and $755.8 million, respectively, of net assets without donor restrictions were available. The amount of board designated investments included within net assets, without donor restriction was $357.1 million and $468.1 million as of June 30, 2020 and 2019, respectively.

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 $7.6 million and $8.7 million for the years ended June 30, 2020 and 2019, 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, the change in unrealized gains or losses on investments and 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 $36.4 million and $32.6 million as of June 30, 2020 and 2019, 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 Claims
Children's National's medical 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. The medical claims payable is based on a percentage of completion model analysis.

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 sevices 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, 2020 and 2019.

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 $1.60 billion and $1.51 billion for the years ended June 30, 2020 and 2019, respectively.

Approximately 47% of net patient service revenues were from Medicaid and Medicaid managed care programs in 2020 and 2019. Total reimbursements received for Graduate Medical Education ("GME") were $16 million in 2020 and $12.3 million in 2019. 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 2018 for all facilities. The Virginia Medicaid cost report is settled annually and is settled through 2019.

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 2020 and 2019.

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

(in thousands)	**2020**	**2019**
Blue Cross	$ 239,602	$ 244,839
Commercial	6,420	8,617
Managed Care	306,990	293,377
Medicaid	512,002	511,295
Other	22,073	29,000
Self-pay	4,329	3,470
Total	$ 1,091,416	$ 1,090,598

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, 2010. 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. In October 2016, HSCSN was awarded a five-year replacement contract consisting of three base years and two option years, ending in September 2021 that can be exercised by DHCF.

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, 2020**		
	Prices In Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total Fair Value**
Assets			
Investments			
Cash and cash equivalents	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

(in thousands)	June 30, 2019		
	Quoted In Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total Fair Value**
Assets			
Investments			
Cash and cash equivalents	$ 126,761	$ -	$ 126,761
Fixed income securities	233,763	44,829	278,592
Equity securities	411,571	25	411,596
Real estate investments	-	6,125	6,125
Total investments	772,095	50,979	823,074
Deferred compensation money market funds	1,853	-	1,853
Deferred compensation mutual funds	24,266	-	24,266
Beneficial interests held by 3rd party	-	816	816
Perpetual trusts held by 3rd party	-	7,239	7,239
Short term assets whose use is limited by terms of debt agreement	19,694	-	19,694
Total assets at fair value	$ 817,908	$ 59,034	$ 876,942
Liabilities			
Deferred compensation liability	$ -	$ 26,120	$ 26,120
Interest rate swaps	-	2	2
Total liabilities at fair value	$ -	$ 26,122	$ 26,122

The following table presents information for investments measured at NAV as of June 30, 2020:

(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	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				

During 2020 and 2019, there were no transfers between Levels 1 and 2.

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 short-term investments including money market accounts, fixed income and equity securities, and mutual funds that are traded in an active exchange market.

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 net asset value (NAV), which consist of limited partnerships and fund of funds. The limited partnerships represent offshore private placement securities offered to U.S. tax-exempt investors. The trusts represent funds invested in a diversified portfolio of global 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 "masterfeeder" 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)	2020	2019
Land	$ 27,506	$ 14,206
Buildings and building improvements	986,842	985,792
Fixed and movable equipment	320,378	277,979
	1,334,726	1,277,977
Less: Accumulated depreciation	(856,626)	(797,826)
	478,100	480,151
Construction in progress	302,987	132,414
Property and equipment, net	$ 781,087	$ 612,565

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 amounted to $78.9 million and $65.1 million, respectively.

In November 2016, the federal government conveyed through quitclaim deed, certain land and buildings to CNWR to be used for the protection of public health, including research. The property, which was recorded as Conveyance of Property within the Consolidated Statement of Changes in Net Assets at fair market value during the year ended June 30, 2017, consisted of land and buildings valued at $11.9 million and $33.5 million, respectively. The buildings are recorded in construction in progress at June 30, 2019. In connection with this transaction, CNWR recorded an environmental retirement obligation of $4.8 million of which the balance is $1.2 million and $2.2 million as of June 30, 2020 and 2019, respectively.

During the years ended June 30, 2020 and 2019, Children's National retired $7.0 million and $5.7 million, respectively, of fully depreciated long-lived assets determined to have no future value. Additionally, during 2019, Children's National sold equipment with a net book value of $1.9 million for cash proceeds of $1.0 million, resulting in a loss on sale of $0.9 million.

6. Contributions Receivable

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

(in thousands)	2020	2019
Less than one year	$ 48,494	$ 57,599
One to five years	30,601	33,535
More than five years	13,670	18,390
	92,765	109,524
Less: Discount	(3,822)	(4,956)
Allowance for uncollectible contributions	(1,216)	(1,467)
Contribution receivable, net	$ 87,727	$ 103,101

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 6.75% based on the date the pledge is made. Loss from uncollectible pledges was $357.0 thousand and $13.2 million for the years ended June 30, 2020 and 2019, 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)	2020	2019
Limited by terms of debt agreements		
Cash and short term investments	$ 664	$ 19,694
Total assets whose use is limited by terms of debt agreements	$ 664	$ 19,694
Limited for professional liability claims		
Cash and short term investments	$ 454	$ 705
Fixed income securities	18,157	18,276
Equity securities	15,287	11,879
Total funded professional liability	$ 33,898	$ 30,860
Investments		
Cash and short term investments	$ 152,681	$ 126,056
Fixed income securities	338,026	260,316
Equity securities	327,920	399,717
Equity method investments	5,708	4,037
Real estate investments	6,125	6,125
Alternative investments	2,965	-
Investment in joint venture	5,708	4,037
Total Investments	$ 833,425	$ 796,251
Interest in Beneficial Trusts		
Beneficial interests held by 3rd party	$ 783	$ 816
Perpetual trusts held by 3rd party	6,405	7,239
Total interest and beneficial trusts	$ 7,188	$ 8,055

Investments included approximately $259.1 million and $242.9 million at June 30, 2020 and 2019, 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, 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 loss on investments	(54,897)	(26,427)	(81,324)
Total investment returns, net	$ 18,992	$ 7,664	$ 26,656

(in thousands)	June 30, 2019		
	Without Donor Resctrions	**With Donor Restrictions**	**Total**
Dividends and interest income	$ 19,495	$ 5,776	$ 25,271
Loss on equity method investments	(9,942)	-	(9,942)
Realized gains	10,111	902	11,013
Investment income	19,664	6,678	26,342
Change in net unrealized gains on investments	7,398	4,368	11,766
Total investment returns, net	$ 27,062	$ 11,046	$ 38,108

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 $5.7 million and $4.0 million as of June 30, 2020 and 2019, respectively. Children's National's contributions to PSV during fiscal year 2020 included $12.9 million of cash contributions while fiscal year 2019 included $7.9 million of cash contributions. Children's National's share of losses from PSV as of June 30, 2020 and 2019, were $11.2 million and $9.9 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, 2020 and 2019, and the total revenue, expenses and net loss for the years then ended for PSV are as follows:

(in thousands)	**2020**	**2019**
Total assets	$ 23,918	$ 22,046
Total liabilities	12,501	8,749
Members' equity	11,417	13,297
Total revenue	31,704	36,250
Total expenses	53,619	56,309
Net loss	$ (21,915)	$ (20,059)

8. Liquidity and Availability

As of June 30, 2020, 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)	**2020**	**2019**
Financial assets		
Cash and cash equivalents	$ 93,566	$ 71,929
Short term investments	96,038	30,197
Short term assets whose use is limited by terms of debt agreement	509	19,694
Accounts receivable for patient services, net	207,666	195,047
Settlements due from third-party payors	24,041	7,714
Current contributions receivable without donor restrictions, net	3,690	13,086
Grants receivable	15,659	16,945
Total financial assets available within one year	441,169	354,612
Liquidity resources:		
Bank line of credit	100,000	50,000
Total financial assets and liquidity resources available within one year	$ 541,169	$ 404,612

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 11, *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 $357.1 million and $468.1 million as of June 30, 2020 and 2019, 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.

In October 2002, the Hospital entered into interest rate swap agreements in conjunction with the restructuring of its Series A tax-exempt bonds. The swaps were intended to protect the Hospital from increased debt service costs resulting from anticipated future increases in market interest rates. The Hospital terminated the 2002 swap on July 15, 2019. The total notional amount of the 2002 interest rate swap agreement was $3.9 million as of June 30, 2019.

In October 2005, the Hospital entered into an interest rate swap agreement (the 2005 swap) in conjunction with the issuance of $150 million in Series 2005-1, 2005-2 and 2005-3 tax-exempt bonds. The swap agreement hedged the variability of cash flows related to changes in market interest rates on the underlying variable-rate debt, effectively converting the variable-rate debt to a fixed rate issuance for the life of the debt outstanding. On April 9, 2008, the Hospital exercised its option to convert the interest rate on the Series 2005 bonds from the auction rate to a fixed rate of 5.45%. In June 2019, the Hospital terminated the 2005 swap in the amount of $24.2 million, which included accrued interest of $195 thousand.

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 67% of the one-month USD-LIBOR plus 1.139% per annum. The total notional amount of the swap agreement was $4.2 million and $4.4 million, respectively, as of June 30, 2020 and 2019.

Classification of derivatives in Consolidated Balance Sheets *(in thousands)*	**Fair Market Value** 2020	2019
Derivatives not designated as hedging instruments		
Liability on interest rate swap	$ 60	$ 2

Classification of derivatives gain/(loss) in Consolidated Statements of Operations *(in thousands)*	**Amount of Gain/(Loss) Recognized in Excess of Revenue Over Expense** 2020	2019
Derivatives not designated as hedging instrument		
Unrealized gain on interest rate swap	$ 33	$ 19,114
Realized gain/(loss) on interest rate swap	193	(26,739)
Net realized and unrealized gain/(loss) on swap agreement	$ 226	$ (7,625)

10. Debt

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

(in thousands)	2020	2019
Series 2015 bonds maturity between July 15, 2019 and July 15, 2044, interest rates ranging from 4.00% to 5.00%	$ 357,735	$ 361,030
Bank Qualified Revenue Bonds	8,375	-
Loan payable to Bank of America	96,944	100,000
Notes payable	18,820	18,820
Total debt	481,874	479,850
Unamortized premiums and discounts, net	26,737	29,321
Unamortized debt issuance costs	(4,744)	(4,960)
	503,867	504,211
Less: Current portion	(13,858)	(5,879)
Total long-term debt	$ 490,009	$ 498,332

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, 2020 and 2019 was $2.6 million. 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

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

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.

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. On April 23, 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 beginning in May 2020. 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.

Lines of Credit

On January 22, 2019, the Hospital entered into a $50.0 million line of credit agreement with Capital One National Association. The line of credit accrued interest at the LIBOR Daily Floating Rate plus 50 basis points. This agreement expired on January 22, 2020.

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 accrues 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 expires on January 22, 2021, subject to extension or earlier termination. No amounts were outstanding as of June 30, 2020.

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 accrues 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 expires on September 26, 2020, subject to extension or earlier termination. No amounts were outstanding as of June 30, 2020.

Maturities and sinking fund requirements of long-term debt outstanding for the next 5 years and thereafter as of June 30, 2020 were as follows:

(in thousands)

2021	$	11,438
2022		11,813
2023		12,208
2024		96,300
2025		9,800
Thereafter		340,315
	$	481,874

Total interest expense was $20.2 million and $21.3 million for the years ended June 30, 2020 and 2019, respectively. Cash paid for interest was $25.4 million and $22.1 million for the years ended June 30, 2020 and 2019, respectively, and includes capitalized interest for construction projects of $2.8 million and $0.9 million, net of investment income for the year ended June 30, 2020 and 2019, 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, 2020 were as follows:

(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

(in thousands)	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds			
Historical gift value	$ -	$ 149,344	$ 149,344
Appreciation	-	46,793	46,793
Total endowment funds	$ -	$ 196,137	$ 196,137

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

(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

(in thousands)	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ -	$ 189,278	$ 189,278
Investment return, net	-	11,086	11,086
Redesignation of net assets	-	775	775
Gifts	-	1,443	1,443
Appropriation for expenditure	-	(6,445)	(6,445)
Endowment net assets, end of year	$ -	$ 196,137	$ 196,137

Net Assets with Donor Restrictions in Perpetuity (Endowments Only)

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of June 30:

(in thousands)	**2020**	**2019**
Patient care	$ 61,327	$ 53,532
Health-related education	6,481	6,529
Research	89,794	89,283
	$ 157,602	$ 149,344

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, 2020 and 2019.

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)	**2020**	**2019**
Patient care	$ 143,659	$ 146,812
Building expansion and equipment	3,774	3,248
Health-related education	7,595	8,202
Research	31,020	31,535
Endowment funds	157,602	149,344
Charitable remainder trusts	782	816
	$ 344,432	$ 339,957

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, 2020 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 $5.7 million and $4.3 million as of June 30, 2020 and 2019, respectively. Amounts accrued for workers compensation claims were approximately $2.8 million and $2.6 million as of June 30, 2020 and 2019, 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 $27.6 million and $24.3 million as of June 30, 2020 and 2019, 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 $35.1 million and $31.8 million as of June 30, 2020 and 2019, 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. 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. Childen's National elected the practical expedient to not sepereate lease and nonlease components for its real estate leases.

In accordance with ASC 842, the Company has elected to not recognize ROU assets and lease liabilities for short-term leases with a lease term of 12 months or less. The Company 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 year ended June 30, 2020 is as follows:

(in thousands)

Financing lease expense:	
Amortization of right-of-use assets	$ 9,911
Interest of lease liabilities	4,782
Opearting lease expense	20,618
Short-term lease expense	4,284
Variable lease expense	3,288
Total lease cost	$ 42,883

Commitments related to non-cancellable operating and financing for the years ending June 30, 2020 are as follows:

(in thousands)	**Operating Leases**	**Financing Leases**
2021	$ 13,758	$ 10,320
2022	16,069	14,086
2023	15,928	14,485
2024	16,081	14,786
2025	15,273	15,148
2026 and thereafter	112,153	138,265
Total future minimum payments	189,262	207,090
Less: Present Value Discount	(50,224)	(58,602)
Present value of net minimum lease payments	$ 139,038	$ 148,488

The weighted average remaining lease term and discount rate as of June 30, 2020 is as follows:

Weighted average remaining lease terms (in years):	
Operating Leases	12.25
Financing Leases	13.06
Weighted average discount rate:	
Operating Leases	4.41%
Financing Leases	3.83%

For the year ended June 30, 2020, supplemental cash flow information related to leases was as follows:

(in thousands)	
Cash paid (received) for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 15,351
Operating cash flows for financing leases	2,942
Financing cash flows for financing leases	7,220
Right of assets obtained in exchange for lease liablities	
Operating leases	$ 32,424
Financing leases	104,347

Aggregate future minimum payments for leases as of June 30, 2019 is as follows:

(in thousands)	**Operating Leases**	**Capital Leases**
2020	$ 19,290	$ 3,134
2021	19,975	3,214
2022	18,057	3,300
2023	16,140	3,253
2024	14,427	3,082
2025 and thereafter	122,492	24,519
Total future minimum payments	210,381	40,502
Less: Amount representing interest	-	(14,840)
Present value of net minimum lease payments	$ 210,381	$ 25,662

Rent expense was $23.6 million for the years ended June 30, 2019.

16. Concentrations of Credit Risk

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:

	2020	**2019**
Managed Care/Commercial	50 %	44 %
Maryland Medicaid	24	22
District of Columbia Medicaid	8	12
Virginia Medicaid and other	17	21
Self-pay	1	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, 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	32	29,982	38,943	9,954	78,911
Insurance	-	9,191	11,281	-	20,472
Interest	-	5,655	13,786	540	19,981
Development expense	20,530	5,656	-	-	26,186
Total operating expenses	29,227	409,279	996,654	86,116	1,521,276
Total non-operating expenses	-	-	-	-	-
Total expenses	$ 29,227	$ 409,279	$ 996,654	$ 86,116	$ 1,521,276

(in thousands)	June 30, 2019				
	Support Services		**Program Services**		
Operating expenses:	**Fundraising**	**Management and General**	**Patient Care**	**Research**	**Total**
Salaries, wages and benefits	$ 4,289	$ 177,186	$ 579,305	$ 52,344	$ 813,124
Supplies & other	4,033	122,710	189,074	32,671	348,488
Depreciation & amortization	13	23,225	33,992	7,870	65,100
Insurance	-	-	15,192	-	15,192
Interest	-	5,515	13,213	-	18,728
Development expense	22,070	4,946	-	-	27,016
Total operating expenses	30,405	333,582	830,776	92,885	1,287,648
Non-operating expenses:					
Interest expense on swap agreements	-	2,596	-	-	2,596
Total non-operating expenses	-	2,596	-	-	2,596
Total expenses	$ 30,405	$ 336,178	$ 830,776	$ 92,885	$ 1,290,244

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	-
Unrealized gain on investments	-	-	-
Contributions from noncontrolling interests	-	-	-
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

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 16, 2020 which, is the date the consolidated financial statements were issued, and other than disclosed below, there are no other matters requiring disclosure in the financial statements as of June 30, 2020.

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 fo the Series 2020 Bonds was used to finance general corporate purposes of the Obligated Group, refinance the Bank of America Loan and and pay expenses in conjunction with the issuance of the Series 2020 Bonds. The Series 2020 Bonds bear interest and 2.93 percent per annum and mature on July 15, 2050 with interest only payments due January 15 and July 15 of each year commencing on January 15, 2021.

In September 2017, Children's National entered into a 20 year ground and improvement lease for certain property located in Prince George's County, Maryland which commenced in July 2019 and is accounted for as an operating lease. In September 2020, Children's National executed an agreement for the purchase of the Prince George's County ground and improvements under lease through a lease-leaseback transaction with a third party that has a security interest in the facility. The lease-leaseback contains provisions for base rent plus additional rent over a term of 30 years.

Supplementary Consolidating Information

Report of Independent Auditors

To the Board of Trustees of
Children's National Medical Center:

We have audited the consolidated financial statements of Children's National Medical Center and its subsidiaries ("Children's National") as of and for the year ended June 30, 2020 and our report thereon appears on page 1 and 2 of this document, which included an unmodified opinion on those financial statements and a paragraph describing a change in the manner in which Children's National accounts for leases in 2020. 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 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 and cash flows of the individual companies.

PricewaterhouseCoopers LLP

October 16, 2020

PricewaterhouseCoopers LLP, 1800 Tysons Boulevard, McLean, VA 22102-4261
T: (703) 918 3000, F: (703) 918 3100, www.pwc.com/us

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Balance Sheet
June 30, 2020

(in thousands)	Obligated group 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	$ 56,786	$ -	$ 1,716	$ -	$ 58,502	$ -	$ -	$ (492)	$ (5)	$ -	$ 33,705	$ 647	$ 1,209	$ -	$ 93,566
Short term investments	96,038	-	-	-	96,038	-	-	-	-	-	-	-	-	-	96,038
Short term assets whose use is limited by terms of debt ag	509	-	-	-	509	-	-	-	-	-	155	-	-	-	664
Accounts receivable, net	198,693	-	-	-	198,693	-	-	1,491	-	-	13,868	-	-	(6,386)	207,666
Settlements due from third-party payors	10,456	-	-	-	10,456	-	-	-	-	-	13,585	-	-	-	24,041
Contributions receivable, net	-	-	47,210	-	47,210	-	719	-	-	-	-	-	-	-	47,929
Grant receivable	1,736	-	-	-	1,736	12,453	133	-	1,337	-	-	-	-	-	15,659
Inventories of supplies	12,142	-	-	-	12,142	-	-	721	-	-	206	-	-	-	13,069
Prepaid expenses and other	57,054	-	-	-	57,054	1	49	523	-	752	5,011	15	398	(22,864)	40,939
Total current assets	433,414	-	48,926	-	482,340	12,454	901	2,243	1,332	752	66,530	662	1,607	(29,250)	539,571
Property and equipment, net	531,897	77,264	136	-	609,297	18,007	857	3,163	-	-	33,982	115,781	-	-	781,087
Right of use assets, financing	122,652	-	-	-	122,652	-	-	788	-	-	-	-	-	-	123,440
Right of use assets, operating	109,336	-	494	-	109,830	190	3,371	5,782	-	-	7,995	-	-	-	127,168
Assets whose use is limited by professional liability claims	454	-	-	-	454	-	-	-	-	-	-	-	33,444	-	33,898
Investments	773,096	-	446,402	(591,957)	627,541	41,690	2,046	-	-	-	62,917	-	44,884	(41,691)	737,387
Contributions receivable, net	-	-	39,630	-	39,630	-	168	-	-	-	-	-	-	-	39,798
Loan receivable	64,103	-	-	-	64,103	-	-	-	-	-	-	-	-	(50,607)	13,496
Interest in beneficial trusts	-	-	7,188	-	7,188	-	-	-	-	-	-	-	-	-	7,188
Due from affiliates	331,008	-	92,708	(47,294)	376,422	-	-	-	-	-	-	-	-	(376,422)	-
Other	46,746	-	-	-	46,746	-	-	940	-	-	-	35	-	(11,120)	36,601
Total noncurrent assets	1,979,292	77,264	586,558	(639,251)	2,003,863	59,887	6,442	10,673	-	-	104,894	115,816	78,328	(479,840)	1,900,063
Total assets	$ 2,412,706	$ 77,264	$ 635,484	$ (639,251)	$ 2,486,203	$ 72,341	$ 7,343	$ 12,916	$ 1,332	$ 752	$ 171,424	$ 116,478	$ 79,935	$ (509,090)	$ 2,439,634
Liabilities and Net Assets															
Current liabilities															
Accounts payable	$ 51,711	$ 1,779	$ -	$ -	$ 53,490	$ -	$ -	$ 546	$ -	$ -	$ 4,549	$ 16,744	$ 466	$ (6,386)	$ 69,409
Accrued salaries and other expenses	145,247	14	910	-	146,171	2,827	415	1,809	1,391	136	5,967	540	(3)	(540)	158,713
Current portion of reserve for claims	26,715	-	-	-	26,715	-	-	-	-	-	-	-	22,324	(22,324)	26,715
Settlements due to third-party payors	2,836	-	-	-	2,836	-	-	-	-	-	19,458	-	-	-	22,294
Deferred revenue	3,828	-	3	-	3,831	9,800	-	-	-	-	-	-	212	-	13,843
Medical claims payable	-	-	-	-	-	-	-	-	-	-	23,925	-	-	-	23,925
Current portion of long-term debt	13,258	-	-	-	13,258	-	-	-	-	-	600	-	-	-	13,858
Current portion of financing lease liabilities	4,413	-	-	-	4,413	-	-	112	-	-	-	-	-	-	4,525
Current portion of operating lease liabilities	4,839	-	542	-	5,381	234	548	1,493		-	-	-		-	7,656
Total current liabilities	252,847	1,793	1,455	-	256,095	12,861	963	3,960	1,391	136	54,499	17,284	22,999	(29,250)	340,938
Noncurrent liabilities															
Long-term debt	463,830	-	-	-	463,830	-	-	-	-	-	7,655	18,524	-	-	490,009
Long-term financing lease liabilities	142,892	-	-	-	142,892	-	-	1,070	-	-		-	-	-	143,962
Long-term operating lease liabilities	112,371	-	9	-	112,380	-	4,415	5,665	-	-	8,922	-	-	-	131,382
Reserve for claims	74,943	-	-	-	74,943	-	-	-	-	-	1,119	-	11,120	(11,120)	76,062
Due to affiliates	-	47,294	-	(47,294)	-	346,609	138	26,697	967	1,922	86	-	3	(376,422)	-
Interest rate swaps	-	-	-	-	-	-	-	-	-	-	60	-	-	-	60
Other long-term liabilities	31,555	1,208	372	-	33,135	-	-	940	-	-	1,263	50,607	-	(50,607)	35,338
Total noncurrent liabilities	825,591	48,502	381	(47,294)	827,180	346,609	4,553	34,372	967	1,922	19,105	69,131	11,123	(438,149)	876,813
Total liabilities	1,078,438	50,295	1,836	(47,294)	1,083,275	359,470	5,516	38,332	2,358	2,058	73,604	86,415	34,122	(467,399)	1,217,751
Net assets (deficit)															
Without donor restrictions - controlling interest	1,034,647	26,969	292,336	(292,336)	1,061,616	(328,819)	(1,105)	(25,416)	(1,026)	(1,306)	97,632	22,471	45,813	(1)	869,859
Without donor restrictions - noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	7,592	-	-	7,592
With donor restrictions	299,621	-	341,312	(299,621)	341,312	41,690	2,932	-	-	-	188	-	-	(41,690)	344,432
Total net assets (deficit)	1,334,268	26,969	633,648	(591,957)	1,402,928	(287,129)	1,827	(25,416)	(1,026)	(1,306)	97,820	30,063	45,813	(41,691)	1,221,883
Total liabilities and net assets (deficit)	$ 2,412,706	$ 77,264	$ 635,484	$ (639,251)	$ 2,486,203	$ 72,341	$ 7,343	$ 12,916	$ 1,332	$ 752	$ 171,424	$ 116,478	$ 79,935	$ (509,090)	$ 2,439,634

Children’s National Medical Center and Subsidiaries
Supplementary Consolidating Statement of Operations
Year Ended June 30, 2020

	Obligated Group														
(in thousands)	**Hospital**	**CNWR**	**Foundation**	**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	$ 1,054,019	$ -	$ -	$ -	$ 1,054,019	$ -	$ (2)	$ 27,549	$ -	$ -	$ 35,729	$ -	$ -	$ (25,879)	$ 1,091,416
Capitation revenue	-	-	-	-	-	-	-	-	-	-	150,782	-	-	-	150,782
Grant revenue	10,806	-	-	-	10,806	54,342	437	741	19,780	-	-	-	-	-	86,106
Other operating revenue	156,799	-	16	(3,940)	152,875	419	1,203	79	-	1,251	197	-	10,872	(36,529)	130,367
Contributions	1,127	-	20,454	-	21,581	1	873	-	-	-	-	-	-	-	22,455
Net assets released from restrictions used for operations	17,462	-	12,470	-	29,932	8,423	5,044	-	-	-	149	-	-	-	43,548
Total operating revenue and other support	1,240,213	-	32,940	(3,940)	1,269,213	63,185	7,555	28,369	19,780	1,251	186,857	-	10,872	(62,408)	1,524,674
Expenses															
Salaries, wages, and benefits	748,013	299	-	-	748,312	52,431	4,126	18,874	17,675	1,758	46,982	-	-	-	890,158
Supplies and other	330,733	2,863	-	(3,940)	329,656	43,150	4,634	12,242	2,234	1,308	25,366	109	2,030	(25,657)	395,072
Medical claims expense	-	-	-	-	-	-	-	-	-	-	116,375	-	-	(25,879)	90,496
Depreciation and amortization	73,032	17	-	-	73,049	2,208	119	413	-	-	3,122	-	-	-	78,911
Provision for insurance	21,889	-	-	-	21,889	68	-	233	36	-	(1,152)	-	10,270	(10,872)	20,472
Interest and amortization	18,946	88	-	-	19,034	-	-	48	-	-	359	540	-	-	19,981
Development expense	-	-	26,186	-	26,186	-	-	-	-	-	-	-	-	-	26,186
Total expenses	1,192,613	3,267	26,186	(3,940)	1,218,126	97,857	8,879	31,810	19,945	3,066	191,052	649	12,300	(62,408)	1,521,276
Operating income (loss)	47,600	(3,267)	6,754	-	51,087	(34,672)	(1,324)	(3,441)	(165)	(1,815)	(4,195)	(649)	(1,428)	-	3,398
Non-operating revenues and expenses															
Investment return, net	(5,318)	-	76,281	-	70,963	-	-	-	-	-	1,588	-	1,338	-	73,889
Unrealized loss on investments	4,194	-	(61,319)	-	(57,125)	-	-	-	-	-	1,679	-	549	-	(54,897)
Realized and change in unrealized fair value of interest rate swaps	195	-	-	-	195	-	-	-	-	-	31	-	-	-	226
Inherent contribution from acquisition of HSC	-	-	-	-	-	-	-	-	-	-	98,542	-	-	-	98,542
Other non-operating loss, net	(267)	-	-	-	(267)	-	-	-	-	-	(14)	-	-	-	(281)
Total non-operating revenues and expenses	(1,196)	-	14,962	-	13,766	-	-	-	-	-	101,826	-	1,887	-	117,479
Excess (deficiency) of revenues over expenses	$ 46,404	$ (3,267)	$ 21,716	$ -	$ 64,853	$ (34,672)	$ (1,324)	$ (3,441)	$ (165)	$ (1,815)	$ 97,631	$ (649)	$ 459	$ -	$ 120,877

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Balance Sheet – The HSC Foundation and Subsidiaries
June 30, 2020

(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	$ 12,328	$ -	$ 21,377	$ -	$ -	$ 33,705
Short term assets whose use is limited by terms of debt agreement	-	-	155	-	-	155
Accounts receivable, net	-	11,437	-	2,431	-	13,868
Settlements due from third-party payors	-	912	12,673	-	-	13,585
Inventories of supplies	-	206	-	-	-	206
Prepaid expenses and other	614	603	3,770	24	-	5,011
Total current assets	12,942	13,158	37,975	2,455	-	66,530
Property and equipment, net	1,425	28,303	4,236	18	-	33,982
Right of use assets, operating	-	3,190	4,252	553	-	7,995
Investments	43,788	39	19,090	-	-	62,917
Total noncurrent assets	45,213	31,532	27,578	571	-	104,894
Total assets	$ 58,155	$ 44,690	$ 65,553	$ 3,026	$ -	$ 171,424
Liabilities and Net Assets						
Current liabilities						
Accounts payable	$ 511	$ 1,173	$ 2,857	$ 8	$ -	$ 4,549
Accrued salaries and other expenses	795	1,778	3,080	314	-	5,967
Settlements due to third-party payors	-	3,815	15,643	-	-	19,458
Medical claims payable	-	-	23,925	-	-	23,925
Current portion of long-term debt	-	600	-	-	-	600
Total current liabilities	1,306	7,366	45,505	322	-	54,499
Noncurrent liabilities						
Long-term debt	-	7,655	-	-		7,655
Long-term operating lease liabilities	-	3,715	4,615	592	-	8,922
Reserve for claims	-	1,023	77	19	-	1,119
Due to affiliates	6,452	29,914	(6,906)	(8,167)	(21,207)	86
Interest rate swaps	-	60	-	-	-	60
Other long-term liabilities	1,263	-	-	-	-	1,263
Total noncurrent liabilities	7,715	42,367	(2,214)	(7,556)	(21,207)	19,105
Total liabilities	9,021	49,733	43,291	(7,234)	(21,207)	73,604
Net assets (deficit)						
Without donor restrictions - controlling interest	49,134	(5,231)	22,262	10,260	21,207	97,632
With donor restrictions	-	188	-	-	-	188
Total net assets (deficit)	49,134	(5,043)	22,262	10,260	21,207	97,820
Total liabilities and net assets (deficit)	$ 58,155	$ 44,690	$ 65,553	$ 3,026	$ -	$ 171,424

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Statement of Operations – The HSC Foundation and Subsidiaries
Year Ended June 30, 2020

(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
Operating revenue and other support						
Net patient service revenue	$ -	$ 26,533	$ -	$ 9,196	$ -	$ 35,729
Capitation revenue	-	-	150,782	-	-	150,782
Other operating revenue	1	168	-	26	2	197
Net assets released from restrictions used for operations	26	123	-	-	-	149
Total operating revenue and other support	27	26,824	150,782	9,222	2	186,857
Expenses						
Salaries, wages, and benefits	6,900	17,927	15,705	6,450	-	46,982
Supplies and other	(5,945)	13,952	14,912	2,451	(4)	25,366
Medical claims expense	-	-	116,375	-	-	116,375
Depreciation and amortization	788	1,220	1,104	10	-	3,122
Provision for insurance	(2)	(676)	(155)	(319)	-	(1,152)
Interest and amortization	60	299	-	-	-	359
Total expenses	1,801	32,722	147,941	8,592	(4)	191,052
Operating income (loss)	(1,774)	(5,898)	2,841	630	6	(4,195)
Non-operating revenues and expenses						
Investment return, net	906	34	648	-	-	1,588
Unrealized loss on investments	1,189	5	485	-	-	1,679
Realized and change in unrealized fair value of interest rate swaps	-	31	-	-	-	31
Inherent contribution from acquisition of HSC	48,813	611	18,287	9,629	21,202	98,542
Other non-operating loss, net	-	(14)	-	-	-	(14)
Total non-operating revenues and expenses	50,908	667	19,420	9,629	21,202	101,826
Excess (deficiency) of revenues over expenses	$ 49,134	$ (5,231)	$ 22,261	$ 10,259	$ 21,208	$ 97,631

1. Basis of Presentation—Consolidating Supplementary Information

The consolidating supplementary information ("consolidating information") presented on pages 45-48 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.