Children's Healthcare of Atlanta, Inc. and Affiliates

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2022 and 2021, and
Independent Auditor's Report

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Children's Healthcare of Atlanta, Inc. (a Georgia not-for-profit corporation) and Affiliates ("Children's"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Children's as of December 31, 2022 and 2021, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Children's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children's ability to continue as a going concern for a reasonable period of time.

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

Deloitte & Touche LLP

May 23, 2023

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2022 AND 2021
(In thousands)

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 104,679	$ 76,066
Assets whose use is limited (Notes 5 and 6)	28,116	28,338
Patient accounts receivable—net	336,014	311,497
Contributions receivable—net	61,429	63,670
Other receivables	21,475	1,540
Supplies and prepaid expenses	59,146	47,338
Total current assets	610,859	528,449
ASSETS WHOSE USE IS LIMITED (Notes 5 and 6)	6,848,274	7,943,354
OTHER NONCURRENT ASSETS:		
Deposits and other assets	34,033	39,459
Right-of-use lease assets (Note 8)	47,691	45,905
Noncurrent contributions receivable—net	195,840	216,651
Total other noncurrent assets	277,564	302,015
PROPERTY AND EQUIPMENT—Net (Note 1)	2,075,644	1,566,143
BENEFICIAL INTERESTS IN TRUSTS	252,911	187,631
TOTAL	$ 10,065,252	$ 10,527,592
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current maturities of long-term debt (Note 7)	$ 31,477	$ 30,881
Long-term debt classified as current (Note 7)	28,116	28,338
Current portion of right-of-use lease obligations (Note 8)	10,831	10,277
Current research pledges (Note 1)	11,500	11,500
Accounts payable and other	267,520	237,849
Salaries, related taxes, and benefits	82,343	97,940
Total current liabilities	431,787	416,785
LONG-TERM DEBT—Net of portion classified as current (Note 7)	1,186,308	1,217,027
NONCURRENT RESEARCH PLEDGES (Note 1)	11,058	21,690
RIGHT-OF-USE LEASE OBLIGATIONS (Note 8)	38,838	37,760
OTHER NONCURRENT LIABILITIES	118,082	167,868
Total noncurrent liabilities	1,354,286	1,444,345
NET ASSETS:		
Without donor restriction	7,242,402	7,697,196
With donor restriction (Note 2)	1,030,252	961,084
Noncontrolling interests in Surgery Center	6,525	8,182
Total net assets	8,279,179	8,666,462
TOTAL	$ 10,065,252	$ 10,527,592

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands)

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES AND SUPPORT:						
Net patient service revenue	$ 2,253,854	$ -	$ 2,253,854	$ 2,074,478	$ -	$ 2,074,478
Other operating revenue	69,463	-	69,463	62,899	-	62,899
Contributions	31,825	106,545	138,370	30,736	127,514	158,250
Investment return designated for operations	48,622	-	48,622	27,216	-	27,216
Net assets released from restriction for operations	63,854	(63,854)	-	57,105	(57,105)	-
Total operating revenues and support	2,467,618	42,691	2,510,309	2,252,434	70,409	2,322,843
OPERATING EXPENSES:						
Salaries and wages	1,103,538	-	1,103,538	955,607	-	955,607
Employee benefits	234,078	-	234,078	214,734	-	214,734
Purchased services	204,341	-	204,341	186,667	-	186,667
Supplies	258,335	-	258,335	236,615	-	236,615
Other expenses	122,047	-	122,047	97,634	-	97,634
Interest expense	18,625	-	18,625	19,432	-	19,432
Depreciation	92,540	-	92,540	96,050	-	96,050
Total operating expenses	2,033,504	-	2,033,504	1,806,739	-	1,806,739
OPERATING INCOME	434,114	42,691	476,805	445,695	70,409	516,104
INVESTMENT INCOME (LOSS) (Note 5)	(940,846)	(36,660)	(977,506)	775,217	36,740	811,957
CHANGE IN FAIR VALUE OF INTEREST RATE SWAPS (Notes 1 and 6)	61,840	-	61,840	24,337	-	24,337
REVENUE OVER (UNDER) EXPENSES	(444,892)	6,031	(438,861)	1,245,249	107,149	1,352,398
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(8,087)	-	(8,087)	(8,942)	-	(8,942)
REVENUE OVER (UNDER) EXPENSES ATTRIBUTABLE TO CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES	$ (452,979)	$ 6,031	$ (446,948)	$ 1,236,307	$ 107,149	$ 1,343,456

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interests	Total
NET ASSETS—December 31, 2020	$ 6,448,669	$ 861,087	$ 8,218	$ 7,317,974
Revenues over expenses	1,236,307	107,149	8,942	1,352,398
Net assets released from restriction for Hughes Spalding (Notes 1 and 2)	-	(2,984)	-	(2,984)
Net assets released from restriction for property additions and other	12,220	(12,220)	-	-
Distributions to noncontrolling interests in Surgery Center	-	-	(10,469)	(10,469)
Proceeds from noncontrolling interests in Surgery Center	-	-	1,491	1,491
Increase in beneficial interests in trusts	-	8,052	-	8,052
Increase (decrease) in net assets	1,248,527	99,997	(36)	1,348,488
NET ASSETS—December 31, 2021	$ 7,697,196	$ 961,084	$ 8,182	$ 8,666,462
Revenues over (under) expenses	$ (452,979)	$ 6,031	8,087	$ (438,861)
Net assets released from restriction for Hughes Spalding (Notes 1 and 2)	-	(3,348)	-	(3,348)
Distributions to noncontrolling interests in Surgery Center	-	-	(7,333)	(7,333)
Change in noncontrolling ownership interests in Surgery Center, net	-	-	(2,411)	(2,411)
Increase in beneficial interests in trusts	-	65,280	-	65,280
Other	(1,815)	1,205	-	(610)
Increase (decrease) in net assets	$ (454,794)	$ 69,168	$ (1,657)	$ (387,283)
NET ASSETS—December 31, 2022	$ 7,242,402	$ 1,030,252	$ 6,525	$ 8,279,179

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (387,283)	$ 1,348,488
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	92,540	96,050
Bond issuance cost amortization	536	624
Bond premium amortization	(8,266)	(8,684)
Amortization of Cloud Computing Implementation Costs (Note 1)	4,513	-
Net unrealized (gains) losses on investments	844,664	(264,812)
Net realized (gains) losses on sale of investments	3,265	(269,495)
Net change in fair value of interest rate swaps	(61,840)	(24,337)
Equity in (income) loss of unconsolidated investments	49,188	(304,377)
Restricted contributions and other	(63,856)	(127,514)
Distributions to noncontrolling interests in Surgery Center and other, net	10,129	8,978
Changes in assets and liabilities:		
Patient accounts receivable and other receivables	(44,468)	(20,121)
Supplies and prepaid expenses	(11,808)	2,008
Other noncurrent assets	(66,153)	(32,580)
Accounts payable and accrued liabilities	5,437	13,454
Other noncurrent liabilities	(12,942)	(29,700)
Total adjustments	740,939	(960,506)
Net cash provided by operating activities	353,656	387,982
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(550,944)	(359,023)
Purchase of assets whose use is limited	(4,107,037)	(7,038,214)
Proceeds from sales and maturities of assets whose use is limited	4,301,030	6,797,534
Net cash used in investing activities	(356,951)	(599,703)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(22,615)	(21,625)
Cash proceeds from restricted contributions and investment income	64,267	156,685
Distributions to noncontrolling interests in Surgery Center	(7,333)	(10,469)
Change in noncontrolling ownership interests in Surgery Center, net	(2,411)	1,491
Net cash provided by financing activities	31,908	126,082
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	28,613	(85,639)
CASH AND CASH EQUIVALENTS—Beginning of year	76,066	161,705
CASH AND CASH EQUIVALENTS—End of year	$ 104,679	$ 76,066

See notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

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

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

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

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

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

f. Children's Healthcare of Atlanta Cardiology, Inc. (formerly known as Emory-Egleston Children's Heart Center, Inc.) provides pediatric cardiac physicians services.

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

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

i. HSOC, Inc. provides management, administrative, and related services to Hughes Spalding Children's Hospital ("Hughes Spalding"), a pediatric hospital wholly owned by Grady Health System, Inc. Pursuant to a management agreement, HSOC, Inc. may be required to provide financial support. HSOC, Inc. may terminate the management agreement with a 180-day notice to Grady Health System, Inc.

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

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

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

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

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

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

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

Cash and Cash Equivalents—Children's considers all highly liquid instruments with original maturities of three months or less at the date of purchase to be cash equivalents, excluding those amounts limited as to use by the Board of Trustees (the "Board"), management, or donor designation. Children's invests cash that is not required for immediate operating needs in major financial institutions in amounts that exceed Federal Deposit Insurance Corporation limits.

Assets Whose Use Is Limited—Assets whose use is limited primarily include assets restricted by donors and assets set aside by the Board over which the Board retains control. The Board has previously designated quasi-endowments for academics, behavioral health, and child advocacy. In 2022, the Board designated a quasi-endowment for rural health of $200,000,000 and an additional $50,000,000 towards behavioral health. The earnings of these quasi-endowments would support these mission-focused programs. The Board may, at its discretion, subsequently use these assets for other purposes.

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

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

Capitalized Cloud Computing Arrangements—Children's capitalizes costs associated with the implementation of cloud computing arrangements in accordance with Accounting Standards Update No. 2018-15, *Intangibles – Goodwill and Other – Internal Use*. As of December 31, 2022, capitalized costs, net of amortization, were approximately $22,344,000, as compared to $26,857,000 as of December 31, 2021, in deposits and other assets in the accompanying consolidated balance sheets. Amortization expense of $4,513,000 and $0 are included in other operating expenses of the Company's Consolidated Statements of Operations for the years ended December 31, 2022 and 2021, respectively.

Property and Equipment—Property and equipment are recorded at cost. Children's policy is to capitalize major additions, including interest costs during construction, and to remove retired items from the accounts. Depreciation is provided using the straight-line method over the estimated service lives of the depreciable property and equipment. The depreciable lives applied are generally 16 to 40 years for buildings and renovations, 15 years for fixed equipment, 7 to 10 years for movable equipment, and 3 to 5 years for computer software and hardware.

A detail of property, equipment, and accumulated depreciation as of December 31, 2022 and 2021, is as follows (in thousands):

	2022	2021
Land and land improvements	$ 197,292	$ 197,460
Buildings and fixed equipment	1,078,305	1,009,759
Movable equipment and computer software	678,051	685,566
Construction in progress	1,127,303	595,205
Total property and equipment	3,080,951	2,487,990
Less: accumulated depreciation	(1,005,307)	(921,847)
Property and equipment—net	$ 2,075,644	$ 1,566,143

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

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

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

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

Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. Net patient service revenue increased approximately $2,783,000 in 2022 and $504,000 in 2021, respectively, due to cash payments and the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to reviews, audits, or investigation.

Children's recognizes that net patient service revenue and patient accounts receivable from government agencies are significant to its operations.

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

Children's recognizes patient service revenue for patients that do not qualify for charity care based on standard rates for services provided. A significant portion of the patients that do not qualify for charity care will be unable or unwilling to pay for services provided. Thus, Children's records a provision for doubtful accounts related to these patients in the period the services are provided. Patient service revenue, net of contractual allowances, discounts, and estimated bad debts, recognized for the years ended December 31, 2022 and 2021, by payor, was approximately (in thousands):

	2022		2021	
Medicaid and Medicare	$ 851,737	37.8 %	$ 750,867	36.2 %
Managed care	1,389,251	61.6	1,310,859	63.2
Self pay	12,866	0.6	12,752	0.6
Total	$ 2,253,854	100.0 %	$ 2,074,478	100.0 %

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

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

Contributions receivable as of December 31, 2022 and 2021, are as follows (in thousands):

	2022	2021
Due in less than one year	$ 63,429	$ 65,014
Due between one and five years	174,592	186,638
Due in more than five years	53,100	69,623
Total contributions receivable	291,121	321,275
Less: allowance for uncollectible amounts	(33,852)	(40,954)
Contributions receivable—net	$ 257,269	$ 280,321

Research Pledges—To further its mission of encouraging scientific investigation into the medical problems of children, Children's periodically makes irrevocable research funding commitments to third parties. At December 31, 2022, Children's had outstanding funding commitments of approximately $23,000,000 to fund pediatric research in the Atlanta, Georgia, area. These irrevocable research commitments were recorded as a component of purchased services in the year of commitment.

Income Taxes—Children's is primarily composed of organizations that have been recognized by the Internal Revenue Service as tax exempt under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying consolidated statements of operations. Children's Healthcare of Atlanta Cardiology, Inc. and The Children's Care Network are taxable entities and the provision for income taxes was not material for the years ended December 31, 2022 and 2021.

Supplemental Cash Flow Information—Children's significant non-cash adjustments and other supplemental cash flow information are as follows (in thousands):

	2022	2021
Adjustments for significant non-cash items:		
Property additions recorded in accrued liabilities	$ 24,247	$ 16,845
Supplemental cash flow information:		
Cash paid for interest [1]	$ 48,108	$ 49,319

[1] Of the amounts paid in 2022 and 2021, net of escrow earnings and fees, $21,177 and $20,630, respectively, were capitalized.

Use of Estimates—The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Further, these estimates and other factors, including those outside the control of Children's, such as market fluctuations, may have a significant impact to the business, financial position, results of operations, and cash flows of Children's. Actual results could differ from those estimates.

2. NET ASSETS WITH RESTRICTIONS

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

Net Assets with Donor Restriction Subject to Expenditure for Specific Purpose or Passage of Time—Net assets with donor restrictions are restricted for the following purposes as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Clinical	$ 95,580	$ 86,663
Academics	46,326	48,704
Child advocacy	1,571	1,341
Capital	346,422	298,204
Multipurpose	12,510	17,376
Time	1,386	1,678
Total	$ 503,795	$ 453,966

Net Assets with Donor Restriction Subject to Spending Policy and Appropriation—Investments in perpetuity, including amounts above original gift amount of $77,210,000 which once appropriated under the spending policy, are expendable to support as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Clinical	$ 372,620	$ 322,506
Academics	70,269	83,059
Child advocacy	9,379	11,657
Multipurpose	74,189	89,896
Total	$ 526,457	$ 507,118
Total net assets with donor restrictions	$ 1,030,252	$ 961,084

Net Assets without Donor Restriction Subject to Board Designation and Appropriation—The Children's Board has quasi-endowed, from net assets without donor restriction, funds for the following purposes as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Academics	$ 1,280,015	$ 1,248,231
Child advocacy	271,212	265,706
Behavioral health	584,286	516,474
Rural health	200,000	-
Other	29,376	35,308
Total	$ 2,364,889	$ 2,065,719

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

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

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

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

Endowment net asset composition by type of fund as of December 31, 2022 and 2021, is as follows (in thousands):

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	$ -	$ 526,073	$ 526,073	$ -	$ 505,845	$ 505,845
Board-designated funds	2,364,889	-	2,364,889	2,065,719	-	2,065,719
Total funds	$ 2,364,889	$ 526,073	$ 2,890,962	$ 2,065,719	$ 505,845	$ 2,571,564

Endowment net asset balances and activities for the years ended December 31, 2022 and 2021, are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Balance—December 31, 2020	$ 1,826,179	$ 470,320	$ 2,296,499
Investment income and other	268,191	36,740	304,931
Increase in beneficial interest in trusts	-	8,052	8,052
Contributions	-	3,048	3,048
Appropriations for expenditures	(28,651)	(12,315)	(40,966)
Balance—December 31, 2021	2,065,719	505,845	2,571,564
Investment income (loss) and other	98,843	(36,660)	62,183
Increase in beneficial interest in trusts	-	65,591	65,591
Board quasi-endowment	250,000	-	250,000
Contributions	-	2,004	2,004
Appropriations for expenditures	(49,673)	(10,707)	(60,380)
Balance—December 31, 2022	$ 2,364,889	$ 526,073	$ 2,890,962

Children's receives restricted contributions on behalf of strategic partners for specific purposes. Such restricted contributions are recorded as contributions to net assets with donor restriction and are reclassified from restriction when the amounts are sent to the intended recipient. For the years ended December 31, 2022 and 2021, Children's released from net assets with donor restriction $3,348,000 and $2,984,000 and, respectively.

3. COMMUNITY BENEFIT AND CHARITY CARE

In accordance with its mission, Children's commits significant resources to promote the health and well-being of children. In support of this endeavor, Children's recognizes that some of its most fragile constituents are children whose families are financially or medically indigent. To that end, Children's provides medical treatment to children whose family or custodians are unable to pay for such treatment. Children's ensures that charity care, indigent care, education, research, and other sponsored community programs ("Community Benefit") benefit all children, regardless of economic status. Therefore, Children's maintains Community Benefit programs, within limits, that are available to the entire community, with equal consideration for those who are poor and underserved.

Charity Care – Represents the unreimbursed cost of providing, funding, or financially supporting health care services to a patient classified as financially indigent and who has not been insured or partially insured by one of the available government-sponsored means-tested indigent care programs. Because many of Children's financially indigent patients qualify for government sponsored indigent care programs, the amounts of charity care are much less than the unreimbursed cost of government-sponsored indigent care programs. The cost of charity care is calculated using a cost-to-charge ratio times the amount of unreimbursed charges. Children's estimates unreimbursed costs for charity care, a component of Community Benefit, to be approximately $37,336,000 for the year ended December 31, 2022. Total unreimbursed costs for charity care for the year ended December 31, 2021, as reported in annual filings to the Internal Revenue Service ("IRS"), was $28,683,000.

Unreimbursed Cost of Government Sponsored Programs – Represents unreimbursed costs for Medicaid services and is calculated using a cost-to-charge ratio times the amount of unreimbursed charges, net of funding from the State of Georgia for neonatal care, and other funding provided to defray these costs. Total unreimbursed costs for Medicaid services, a component of Community Benefit for the year ended December 31, 2021, as reported in annual filings to the Internal Revenue Service, was $124,349,000.

Community Benefit – Total Community Benefit cost, as reported in annual filings to the IRS and which includes charity and unreimbursed costs for Medicaid services amounts noted above, was $299,024,000 for the year ended December 31, 2021.

Children's will complete and file various public disclosures, including its federal tax return with the IRS and other reports to the state of Georgia that will include estimated costs of its fiscal year 2022 charity, unreimbursed care, and total community benefit costs.

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

Children's liquidity and availability of resources to meet cash needs within one year is presented below. Children's financial assets are reduced by amounts not available for general use because of contractual, donor-imposed, or board-imposed restrictions. Amounts not available include amounts set aside for quasi-endowments that could be drawn upon if the Board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable. Amounts available to meet cash needs for general expenditures within one year are as follows (in thousands):

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 104,679	$ 76,066
Patient accounts receivable—net	336,014	311,497
Assets whose use is limited	6,876,390	7,971,692
Contributions receivable—net	61,429	63,670
Other receivables	21,475	1,540
Total financial assets	7,399,987	8,424,465
Less those unavailable for general expenditure within one year due to:		
Contractual or donor-imposed restrictions:		
Subject to expenditure for specific purpose or passage of time	(503,795)	(453,966)
Subject to spending policy and appropriation	(526,457)	(507,118)
Bond agreement for asset construction	-	(312,171)
Collateral held for interest rate swap agreement	-	(28,960)
Board designations—quasi-endowments	(2,364,889)	(2,065,719)
Amounts set aside for standby bond purchase agreement	(28,116)	(28,338)
Unencumbered investments in hedge funds	(1,579,011)	(2,073,638)
Unencumbered investments in nonmarketable securities	(1,049,714)	(1,007,698)
Unencumbered other equity securities	(59,929)	(5,225)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,288,076	$ 1,941,632

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

5. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use as of December 31, 2022 and 2021, is set forth in the following table (in thousands):

	2022	2021
Board-designated for asset acquisition, uncompensated care, debt service, strategic, and operational activities:		
Cash and cash equivalents	$ 282,466	$ 235,010
Equity securities	939,164	1,658,701
Other equity securities	83,664	6,559
Debt securities	408,667	446,873
Hedge funds	2,204,381	2,603,030
Investments in nonmarketable securities	1,465,455	1,264,960
Held for capital projects:		
Cash and cash equivalents	517,106	304,605
Debt securities	444,462	610,865
Cash, cash equivalents, and debt securities held for interest rate swap agreement	-	28,960
Subtotal	6,345,365	7,159,563
Bond agreement designated for asset construction:		
Cash and cash equivalents	-	57,891
Debt securities	-	254,280
Subtotal	-	312,171
Donor-restricted for special purposes:		
Cash and cash equivalents	27,861	18,905
Equity securities	92,634	133,429
Other equity securities	8,252	528
Debt securities	40,308	35,947
Hedge funds	217,427	209,393
Investments in nonmarketable securities	144,543	101,756
Subtotal	531,025	499,958
Total assets whose use is limited	6,876,390	7,971,692
Less: portion classified as current (Note 7)	(28,116)	(28,338)
Total assets whose use is limited—noncurrent	$ 6,848,274	$ 7,943,354

Investment Income (Loss)—Significant components of investment income for the years ended December 31, 2022 and 2021, are as follows (in thousands):

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Investment income (loss) and other:						
Interest and dividends	$ 26,566	$ 883	$ 27,449	$ 21,140	$ -	$ 21,140
Net realized gains (losses) on sales of investments	(3,265)	1,661	(1,604)	250,964	18,531	269,495
Net unrealized gains (losses) on investments	(844,664)	(37,069)	(881,733)	246,603	18,209	264,812
Equity in income (loss) of unconsolidated investments	(49,188)	-	(49,188)	304,377	-	304,377
Total investment income (loss) and other	(870,551)	(34,525)	(905,076)	823,084	36,740	859,824
Less: investment expenses	(21,673)	(2,135)	(23,808)	(20,651)	-	(20,651)
Net of investment expenses	(892,224)	(36,660)	(928,884)	802,433	36,740	839,173
Less: investment return designated for operations	(48,622)	-	(48,622)	(27,216)	-	(27,216)
Total	$ (940,846)	$ (36,660)	$ (977,506)	$ 775,217	$ 36,740	$ 811,957

Investments in Nonmarketable Securities Accounted for under the Equity Method—The accompanying consolidated statements of operations reflect equity in loss related to Children's investment in nonmarketable securities required to be accounted for under the equity method of accounting of approximately $49,188,000 and equity in income of $304,377,000 for the years ended December 31, 2022 and 2021, respectively.

Summarized unaudited financial information for the entities represented by the nonmarketable securities Children's accounts for under the equity method as of and for the years ended December 31, 2022 and 2021, is as follows (in thousands):

	2022	2021
Total assets	$ 160,923,986	$ 148,055,882
Total liabilities	5,070,286	4,904,487
Equity	155,853,700	143,151,367
Revenue	3,156,066	11,609,323
Net unrealized income	17,692,961	30,209,610
Net income (loss)	(3,252,525)	47,685,440

At December 31, 2022, Children's had outstanding funding commitments to purchase limited investment partnership interests of approximately $879,595,000. These commitments will be met over the next five years.

6. FAIR VALUE MEASUREMENTS

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

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

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

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

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

The fair value table presents information about Children's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021, as follows (in thousands):

Fair Value—December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets whose use is limited:				
Cash and cash equivalents	$ 827,432	$ -	$ -	$ 827,432
Equity securities:				
US equities	309,619	-	-	309,619
Non-US equities	98,454	-	-	98,454
Other equity securities	-	-	6,541	6,541
Debt securities:				
Government agencies	-	790,315	-	790,315
Corporate bonds	-	9,863	-	9,863
Commingled & mutual funds:				-
Equity funds	111,438	-	-	111,438
Fixed income	1,303	91,957	-	93,260
Beneficial interests in trusts	-	-	252,911	252,911
Total assets at fair value	$ 1,348,246	$ 892,135	$ 259,452	$ 2,499,833
Net asset value:				
Commingled equity funds				505,746
Hedge funds				2,421,807
Other equity securities				91,917
Total				$ 5,519,303
Liabilities—interest rate swap agreements	$ -	$ 31,738	$ -	$ 31,738

Fair Value—December 31, 2021	Level 1	Level 2	Level 3	Total
Assets whose use is limited:				
Cash and cash equivalents	$ 645,371	$ -	$ -	$ 645,371
Equity securities:				
US equities	475,206	-	-	475,206
Non-US equities	186,917	-	-	186,917
Debt securities:				
Government agencies	-	1,192,201	-	1,192,201
Corporate bonds	-	12,718	-	12,718
Commingled & mutual funds:				-
Equity funds	207,817	5,270	-	213,087
Fixed income	1,503	141,542	-	143,045
Beneficial interests in trusts	-	-	187,631	187,631
Total assets at fair value	$ 1,516,814	$ 1,351,731	$ 187,631	$ 3,056,176
Net asset value:				
Commingled equity funds				916,920
Hedge funds				2,812,424
Other equity securities				7,086
Total				$ 6,792,606
Liabilities—interest rate swap agreements	$ -	$ 93,610	$ -	$ 93,610

The estimated fair value of beneficial interests in trust and other equity securities are based on unobservable inputs that are not corroborated by observable market data and are thus classified as Level 3. In 2021, beneficial interests in trusts were valued based on expected discounted cash flows or the value of underlying assets. As of December 31, 2022, Children's has valued all beneficial interests in trusts based on the proportional value of the trust's underlying assets as this information is now available. Other equity securities are primarily valued based on their respective claims on a series of call options with strike prices at various value.

Investments Measured at Net Asset Value

Commingled Equity Funds—As of December 31, 2022 and 2021, Children's held approximately $505,746,000 and $916,920,000, respectively, in commingled equity funds that are not publicly traded. The underlying assets in the funds are publicly traded on the exchanges and price quotes for the assets held by the funds are readily available. These investments are redeemable at net asset value and can be liquidated, subject to a 7-day to 30-day notification period.

Hedge Funds—As of December 31, 2022 and 2021, Children's held approximately $2,421,807,000 and $2,812,424,000, respectively, in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. These funds typically allow redemptions quarterly, annually, or biannually and require a redemption notification period of 45 days to 90 days. Children's had no unfunded commitments with respect to these hedge funds as of December 31, 2022.

Other Equity Securities—As of December 31, 2022 and 2021, Children's held approximately $91,917,000 and $7,086,000, respectively in other equity securities that are not publicly traded and do not allow redemption within an initial three-year period. As of December 31, 2022, Children's had remaining funding commitments of $26,400,000 with a three-year lock up period.

The changes in assets classified as Level 3 for the years ended December 31, 2022 and 2021, are as follows (in thousands):

	2022	2021
Balance—January 1	$ 187,631	$ 179,723
Contributions	6,541	-
Realized and unrealized gains—net of fees	65,280	7,908
Balance—December 31	$ 259,452	$ 187,631

During the years ended December 31, 2022 and 2021, there were no significant transfers between Level 1, Level 2, or Level 3 investments.

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

7. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2022 and 2021, is as follows (in thousands):

	2022	2021
2008 Certificates & Bonds—2008 variable rate revenue anticipation certificates and bonds due July 2042. Interest rates range from .05% to 3.87% for the year ended December 31, 2022. Mandatory sinking fund redemption beginning July 2009.	$ 64,300	$ 64,770
2017 Certificates & Bonds—2017 variable rate revenue anticipation certificates and bonds due July 2039. Interest rates range from .33% to 3.59% for the year ended December 31, 2022.	155,400	159,625
2019 Certificates & Bonds—2019 fixed and variable rate revenue anticipation certificates and bonds due July 2049. Interest rates range from .04% to 5.00% payable semiannually—including unamortized premium of $86,479 in 2022 and $94,745 in 2021. Mandatory sinking fund redemption beginning July 2040.	1,031,994	1,058,180
Subtotal	1,251,694	1,282,575
Less: bond issuance costs	(5,793)	(6,329)
Less: current maturities of long-term debt	(31,477)	(30,881)
Less: long-term debt classified as current due to terms of standby purchase agreements	(28,116)	(28,338)
Long-term debt—net of portion classified as current	$ 1,186,308	$ 1,217,027

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

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

On August 20, 2019, the Brookhaven Development Authority (“Brookhaven Authority”) issued approximately $736,765,000 in fixed rate tax-exempt revenue bonds and $109,885,000 in variable rate tax-exempt revenue bonds; the DeKalb Authority issued approximately $81,255,000 in fixed rate tax-exempt revenue anticipation certificates; and the Fulton Authority issued approximately $75,250,000 in fixed rate tax-exempt revenue bonds (collectively, “2019 Certificates & Bonds”) pursuant to a trust indenture by and among Brookhaven Authority, the DeKalb Authority, the Fulton Authority, and certain investment banks. The proceeds were loaned to Children’s pursuant to loan agreements between the Brookhaven Authority and Children’s; the DeKalb Authority and Children’s; and the Fulton Authority and Children’s and is being used to fund the North Druid Hills medical campus and refund certain certificates and bonds.

The variable rate 2008 Certificates & Bonds and the variable rate 2019 Certificates & Bonds (collectively, the “Variable Rate Certificates & Bonds”) are remarketed on a weekly basis and the bondholders have the ability to tender any or all of the bonds at each remarketing date. Children’s has a standby purchase agreement (“SBPA”) with a financial institution to serve as security for the payment of the Variable Rate Certificates & Bonds. In the event bondholders elect to tender any or all of the Variable Rate Certificates & Bonds for purchase and the revenue bonds are not able to be remarketed, the SBPA is utilized to purchase the revenue bonds. Any amounts outstanding on the SBPA are repayable over a six-year period, or prior to September 2021, a three-year period. As a result, Children’s has included $28,116,000 and $28,338,000 in current liabilities as of December 31, 2022 and 2021, respectively. There were no amounts outstanding at December 31, 2022 or 2021.

Interest Rate Swap Agreements—In connection with certain bond issues, Children’s entered into interest rate swap agreements with three banks effectively converting Children’s interest rate exposure on a portion of this debt from a variable to a fixed rate. Children’s does not follow hedge accounting for these interest rate swaps. The interest rate swaps had an aggregate notional amount of approximately $325,425,000 and $330,905,000 at December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, Children’s has recorded a liability of approximately $31,738,000 and $93,610,000, respectively, related to these interest rate swaps in other noncurrent liabilities in the accompanying consolidated balance sheets. The change in fair value of these interest rate swaps of approximately $61,840,000 and $24,337,000 is included in revenues over (under) expenses in the accompanying consolidated statements of operations for the years ended December 31, 2022 and 2021, respectively.

Bond Issuance Costs—Costs incurred in issuing long-term debt are amortized over the life of the underlying debt. The gross amount of bond issuance costs as of December 31, 2022 and 2021, totaled $10,487,000 and the related accumulated amortization totaled $4,694,000 and $4,158,000, respectively.

Debt Maturities—Future scheduled maturities of long-term debt as of December 31, 2022, are as follows (in thousands):

Years Ending December 31	
2023	$ 23,670
2024	24,760
2025	25,935
2026	27,120
2027	28,375
Thereafter	1,035,355
Total	$ 1,165,215

8. LEASES

Children's leases property and equipment under operating leases. For lease terms over a year, Children's records the related right-of-use assets and right-of-use obligations at the present value of lease payments over the term. Many leases include rental escalation clauses and renewal options that are factored into estimated lease payments when appropriate.

Children's utilizes an incremental borrowing rate to discount the lease payments based on information available at lease commencement when readily determinable implicit interest rates are not available.

The following table presents Children's lease-related assets and liabilities as of December 31, (in thousands):

	Balance Sheet Classification	**2022**	**2021**
Assets:			
Operating leases	Right-of-use lease assets	$ 47,691	$ 45,905
Total lease assets		$ 47,691	$ 45,905
Liabilities:			
Operating leases:			
Current	Current portion of right-of-use lease obligations	$ 10,831	$ 10,277
Long-term	Right-of-use lease obligations	38,838	37,760
Total lease liabilities		$ 49,669	$ 48,037
Weighted-average remaining term		5.5 years	5.6 years
Weighted-average discount rate		1.46 %	1.33 %

Total operating lease expense amounted to approximately $12,793,000 and $13,527,000 for the years ended December 31, 2022 and 2021, respectively, and were included as other expenses on the consolidated statements of operations.

The following table presents undiscounted minimum lease payments as of the year ended December 31, 2022 (in thousands):

Years Ending December 31	
2023	$ 11,845
2024	10,753
2025	9,574
2026	8,148
2027	6,308
Thereafter	6,403
Total minimum lease payments	53,031
Less: amount of lease payments representing interest	(3,362)
Present value of future minimum lease payments	49,669
Less: current obligations under lease	(10,831)
Long-term lease obligations	$ 38,838

For the years ended December 31, the cash flow and other information related to leases were as follows (in thousands):

	2022	**2021**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating and short-term leases	$ 9,922	$ 9,435
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	$ 10,456	$ 11,000

9. RETIREMENT BENEFITS

Children’s maintains defined contribution retirement plans. Contributions to the plans were $48,201,000 and $47,681,000 for the years ended December 31, 2022 and 2021, respectively.

10. COMMITMENTS AND CONTINGENCIES

Insurance Arrangements—Children’s is self-insured for a substantial portion of its general and medical professional liability risks. Children’s maintains self-insurance plan limits of $1,000,000 per occurrence for general liability and $3,000,000 per medical incident for professional liability, plus a $4,750,000 each loss/$4,750,000 aggregate self-insured professional liability buffer layer. The self-insurance plan is subject to a $22,750,000 combined annual aggregate limit. General liability coverage is occurrence based and professional liability coverage is provided on a claims-made basis. In addition, claims incurred but not reported prior to January 1, 2001, are covered under a commercial insurance policy subject to a $250,000 per occurrence and $750,000 aggregate retention.

The accrual for self-insured general and medical professional liability losses, including loss adjustment expense, is based on actuarial estimates using historical claims experience adjusted for current industry trends. The actual claim settlements and expenses may differ from amounts provided, but in the opinion of management, an adequate accrual has been made for such claims at December 31, 2022 and 2021.

Children's self-insures its health insurance and workers' compensation programs, supplemented with certain stop-loss coverages. Estimates are made for known claims outstanding and claims incurred but not reported under the programs and are recorded in accounts payable and other current liability; salaries, related taxes, and benefits current liability and other noncurrent liabilities in the accompanying consolidated balance sheets.

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

11. FUNCTIONAL EXPENSES

The mission of Children's is to make kids better today and healthier tomorrow. Program expenses relating to this mission, general and administrative, and fundraising for the years ended December 31, 2022 and 2021, are as follows (in thousands):

	2022			
	Program	General and Administrative	Fund-Raising	Total
Salaries and wages	$ 1,031,415	$ 63,225	$ 8,898	$ 1,103,538
Employee benefits	216,739	15,273	2,066	234,078
Purchased services	184,977	13,724	5,640	204,341
Supplies	254,711	3,454	170	258,335
Other expenses	114,497	3,172	4,378	122,047
Interest expense	18,625	-	-	18,625
Depreciation	69,809	22,361	370	92,540
Total	$ 1,890,773	$ 121,209	$ 21,522	$ 2,033,504

	2021			
	Program	General and Administrative	Fund-Raising	Total
Salaries and wages	$ 893,164	$ 54,749	$ 7,694	$ 955,607
Employee benefits	199,130	14,011	1,593	214,734
Purchased services	166,999	16,146	3,522	186,667
Supplies	235,462	1,062	91	236,615
Other expenses	80,228	15,426	1,980	97,634
Interest expense	19,432	-	-	19,432
Depreciation	78,551	17,452	47	96,050
Total	$ 1,672,966	$ 118,846	$ 14,927	$ 1,806,739

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

12. SUBSEQUENT EVENTS

Children's has evaluated events and transactions for potential recognition or disclosure through May 23, 2023, the date the consolidated financial statements were available to be issued.

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