

Children's Healthcare of Atlanta, Inc. and Affiliates

Consolidated Financial Statements as of and for the
Years Ended December 31, 2017 and 2016, and
Independent Auditors' Report

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Children's Healthcare of Atlanta, Inc. (a Georgia not-for-profit corporation) and Affiliates ("Children's"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's as of December 31, 2017 and 2016, and the results of operations, the changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 22, 2018

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 130,491	\$ 85,838
Patient accounts receivable—less allowance for uncollectible accounts of \$4,962 and \$3,663 in 2017 and 2016, respectively	200,452	180,155
Assets whose use is limited (Note 4)	58,615	35,488
Contributions receivable—net	24,795	25,482
Other receivables	5,174	7,381
Supplies and prepaid expenses	<u>38,166</u>	<u>37,840</u>
Total current assets	<u>457,693</u>	<u>372,184</u>
ASSETS WHOSE USE IS LIMITED (Note 4)	<u>4,737,047</u>	<u>3,900,312</u>
PROPERTY AND EQUIPMENT—Net (Note 1)	<u>790,913</u>	<u>636,625</u>
OTHER NONCURRENT ASSETS:		
Deposits and other assets	7,163	2,515
Noncurrent contributions receivable—net	<u>14,440</u>	<u>16,031</u>
Total other noncurrent assets	<u>21,603</u>	<u>18,546</u>
BENEFICIAL INTERESTS IN TRUSTS	<u>155,845</u>	<u>143,292</u>
TOTAL	<u>\$ 6,163,101</u>	<u>\$ 5,070,959</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 11,102	\$ 10,702
Long-term debt classified as current (Note 6)	58,615	35,488
Current research pledges (Note 1)	8,225	6,800
Accounts payable and other	183,339	149,931
Salaries, related taxes, and benefits	66,514	62,687
Accrued interest	<u>2,276</u>	<u>2,286</u>
Total current liabilities	<u>330,071</u>	<u>267,894</u>
LONG-TERM DEBT—Net of portion classified as current (Note 6)	565,010	380,094
NONCURRENT RESEARCH PLEDGES (Note 1)	59,591	63,238
OTHER NONCURRENT LIABILITIES	<u>117,411</u>	<u>136,087</u>
Total noncurrent liabilities	<u>742,012</u>	<u>579,419</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS:		
Unrestricted	4,518,025	3,698,622
Temporarily restricted	347,503	321,358
Permanently restricted	216,621	195,928
Noncontrolling interests in Surgery Center	<u>8,869</u>	<u>7,738</u>
Total net assets	<u>5,091,018</u>	<u>4,223,646</u>
TOTAL	<u>\$ 6,163,101</u>	<u>\$ 5,070,959</u>

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
OPERATING REVENUES AND SUPPORT:		
Patient service revenue (net of contractual and other discounts)	\$ 1,571,358	\$ 1,493,377
Provision for bad debts	<u>(26,738)</u>	<u>(27,586)</u>
Net patient service revenue	1,544,620	1,465,791
Other operating revenue	67,169	48,975
Unrestricted contributions	19,220	16,362
Net assets released from restriction for operations	<u>54,339</u>	<u>51,573</u>
Total operating revenues and support	<u>1,685,348</u>	<u>1,582,701</u>
OPERATING EXPENSES:		
Salaries and wages	748,766	705,987
Employee benefits	170,056	160,096
Purchased services	168,162	145,553
Supplies	181,089	173,144
Other expenses	102,805	99,193
Interest expense	20,265	19,490
Depreciation	<u>67,877</u>	<u>63,231</u>
Total operating expenses	<u>1,459,020</u>	<u>1,366,694</u>
OPERATING INCOME	226,328	216,007
INVESTMENT INCOME—Including net unrealized gain on investments of \$308,372 and \$134,197 in 2017 and 2016, respectively (Note 4)	594,430	194,484
CHANGE IN FAIR VALUE OF INTEREST RATE SWAPS (Notes 1 and 6)	5,635	7,855
CONTRIBUTIONS TO HUGHES SPALDING (Note 1)	<u>-</u>	<u>(680)</u>
REVENUE OVER EXPENSES	826,393	417,666
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(9,345)</u>	<u>(8,103)</u>
REVENUE OVER EXPENSES ATTRIBUTABLE TO CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES	<u>\$ 817,048</u>	<u>\$ 409,563</u>

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, 2017 AND 2016 (In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Noncontrolling Interests	Total
NET ASSETS—December 31, 2015	\$ 3,288,402	\$ 314,160	\$ 176,857	\$ 7,708	\$ 3,787,127
Revenues over expenses	409,563	-	-	8,103	417,666
Contributions and other	-	49,024	11,263	-	60,287
Investment income and other	-	12,268	-	-	12,268
Net assets released from restriction for operations	-	(51,573)	-	-	(51,573)
Net assets released from restriction for Hughes Spalding (Notes 1 and 2)	-	(1,864)	-	-	(1,864)
Net assets released from restriction for property additions	657	(657)	-	-	-
Distributions to noncontrolling interests in Surgery Center	-	-	-	(8,681)	(8,681)
Proceeds from sale of noncontrolling interests in Surgery Center	-	-	-	608	608
Increase in beneficial interest in trusts	-	-	7,808	-	7,808
Increase in net assets	<u>410,220</u>	<u>7,198</u>	<u>19,071</u>	<u>30</u>	<u>436,519</u>
NET ASSETS—December 31, 2016	3,698,622	321,358	195,928	7,738	4,223,646
Revenues over expenses	817,048	-	-	9,345	826,393
Contributions and other	-	47,384	8,140	-	55,524
Investment income and other	-	39,507	-	-	39,507
Net assets released from restriction for operations	-	(54,339)	-	-	(54,339)
Net assets released from restriction for Hughes Spalding (Notes 1 and 2)	-	(4,052)	-	-	(4,052)
Net assets released from restriction for property additions	2,355	(2,355)	-	-	-
Distributions to noncontrolling interests in Surgery Center	-	-	-	(8,425)	(8,425)
Proceeds from sale of noncontrolling interests in Surgery Center	-	-	-	211	211
Increase in beneficial interest in trusts	-	-	12,553	-	12,553
Increase in net assets	<u>819,403</u>	<u>26,145</u>	<u>20,693</u>	<u>1,131</u>	<u>867,372</u>
NET ASSETS—December 31, 2017	<u>\$ 4,518,025</u>	<u>\$ 347,503</u>	<u>\$ 216,621</u>	<u>\$ 8,869</u>	<u>\$ 5,091,018</u>

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, 2017 AND 2016 (In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 867,372	\$ 436,519
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	67,877	63,231
Bond issuance cost amortization	217	202
Bond premium amortization	(169)	(258)
Net unrealized gains on investments	(308,372)	(134,197)
Realized (gains) losses on sale of investments	(173,014)	11,405
Net change in fair value of interest rate swaps	(5,635)	(7,855)
Equity in income of unconsolidated investments	(55,825)	(34,182)
Provision for bad debts	26,738	27,586
Restricted contributions and investment income	(95,031)	(72,555)
Distributions to noncontrolling interests in Surgery Center and other	8,214	8,073
Changes in assets and liabilities:		
Patient accounts receivable and other receivables	(44,840)	(51,104)
Supplies and prepaid expenses	(326)	(7,240)
Other noncurrent assets	(17,207)	(6,690)
Accounts payable and accrued liabilities	38,651	17,271
Other noncurrent liabilities	(16,690)	(11,655)
Total adjustments	<u>(575,412)</u>	<u>(197,968)</u>
Net cash provided by operating activities	<u>291,960</u>	<u>238,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(222,166)	(101,623)
Purchase of assets whose use is limited	(2,857,880)	(1,347,384)
Proceeds from distribution and disposal of assets whose use is limited	<u>2,535,233</u>	<u>1,165,744</u>
Net cash used in investing activities	<u>(544,813)</u>	<u>(283,263)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	220,000	-
Payment of bond issuance costs	(1,072)	-
Repayments of long-term debt	(10,533)	(10,097)
Distributions to noncontrolling interests in Surgery Center	(8,425)	(8,681)
Proceeds from sale of noncontrolling interests in Surgery Center	211	608
Cash proceeds from restricted contributions and investment income	<u>97,325</u>	<u>68,958</u>
Net cash provided by financing activities	<u>297,506</u>	<u>50,788</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,653	6,076
CASH AND CASH EQUIVALENTS—Beginning of year	<u>85,838</u>	<u>79,762</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 130,491</u>	<u>\$ 85,838</u>

See notes to consolidated financial statements.

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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 services through fund-raising activities.
- f. Emory-Egleston Children's Heart Center, Inc. operates as Sibley Heart Center and provides pediatric cardiac physician services.
- g. The Children's Health Network is a physician hospital organization.
- h. The Children's Care Network is a clinically integrated network.
- i. HSOC, Inc. provides management, administrative, and related services to Hughes Spalding Children's Hospital ("Hughes Spalding"), a pediatric hospital wholly owned by Grady Health System, Inc. Pursuant to a management agreement, HSOC, Inc. may be required to provide financial support. HSOC, Inc. may terminate the management agreement with a 60 day notice to Grady Health System, Inc.
- j. Marcus Autism Center, Inc. is a provider of outpatient therapy and counseling services for children with autism and other behavioral disorders.

- k. Real Estate Enterprises, LLC is a special purpose entity for real estate transactions.
- l. Children’s Healthcare of Atlanta Affiliations, LLC is a special purpose entity for health system affiliation transactions.
- m. Pediatric Informatics, LLC is a special purpose entity for information technology services provided to other health care systems.
- n. Children’s Healthcare of Atlanta Surgery Center at Meridian Mark Plaza, LLC (“Surgery Center”) is a 51% joint venture with physicians to operate an outpatient surgery center.

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

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

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

Assets Whose Use is Limited—Assets whose use is limited primarily include assets restricted by donors and assets set aside by the Board of Trustees (the “Board”) over which the Board retains control and may, at its discretion, subsequently use for other purposes.

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

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

Property and Equipment—Property and equipment are recorded at cost. Children’s policy is to capitalize major additions, including interest costs during construction, and to remove retired items from the accounts. Depreciation is provided using the straight-line

method over the estimated service lives of the depreciable property and equipment. The depreciable lives applied are generally 16 to 40 years for buildings and renovations, 15 years for fixed equipment, 10 years for movable equipment, and 3 to 5 years for computer software and hardware.

A detail of property, equipment, and accumulated depreciation as of December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Land and land improvements	\$ 160,889	\$ 114,920
Buildings and fixed equipment	601,877	718,302
Movable equipment and computer software	603,248	661,134
Construction in progress	<u>177,356</u>	<u>52,505</u>
Total property and equipment	1,543,370	1,546,861
Less accumulated depreciation	<u>(752,457)</u>	<u>(910,236)</u>
Property and equipment—net	<u>\$ 790,913</u>	<u>\$ 636,625</u>

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 restricted net assets in the accompanying consolidated balance sheets. Management’s estimate of fair value is updated annually, the effect of which is included in the accompanying consolidated statements of changes in net assets as an increase in restricted net assets.

Net Patient Service Revenue, Patient Accounts Receivable, and Bad Debts—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. 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 \$2,879,000 and \$4,892,000 in 2017 and 2016, 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 and discounts (but before the provision for doubtful accounts), recognized for the years ended December 31, 2017 and 2016, by payor, was approximately (dollars in thousands):

	2017		2016	
Medicaid	\$ 219,990	14 %	\$ 211,045	14 %
Medicaid Managed Care	408,553	26	395,565	27
Managed Care	895,675	57	841,634	56
Commercial and other	47,140	3	45,133	3
Total	<u>\$ 1,571,358</u>	<u>100 %</u>	<u>\$ 1,493,377</u>	<u>100 %</u>

The provision for bad debts relating to patient service revenue is based on an evaluation of potentially uncollectible portions of accounts receivable. The provision considered necessary for such bad debts is based on an analysis of current- and past-due accounts, collection experience in relation to amounts billed, and other relevant information. The allowance for uncollectible accounts represents the estimated uncollectible portion of patient accounts receivable for self-pay receivables associated with patients that have third party coverage. Children’s allowance for uncollectible accounts was approximately 54% and 50% of related accounts receivable as of December 31, 2017 and 2016, respectively. Bad debt write-offs totaled approximately \$47,612,000 and \$48,686,000 for the years ended December 31, 2017 and 2016, respectively.

A summary of activity in Children's provision for doubtful accounts for the years ended December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Balance at beginning of year	\$ 3,663	\$ 4,547
Provision for doubtful accounts	26,738	27,586
Accounts written off—net of recoveries	<u>(25,439)</u>	<u>(28,470)</u>
Balance at end of year	<u>\$ 4,962</u>	<u>\$ 3,663</u>

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 temporarily restricted net assets 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 unrestricted net assets 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 temporarily restricted net assets at fair market value on the date of receipt. When donated property and equipment are used for their intended purposes, the applicable amount is transferred to unrestricted net assets.

Contributions receivable as of December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Due in less than one year	\$ 25,196	\$ 25,835
Due between one and five years	<u>15,621</u>	<u>17,141</u>
Total contributions receivable	40,817	42,976
Allowance for uncollectible amounts	<u>(1,582)</u>	<u>(1,463)</u>
Contributions receivable—net	<u>\$ 39,235</u>	<u>\$ 41,513</u>

Children's had no material conditional promises to contribute outstanding at December 31, 2017 and 2016.

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, 2017, Children’s had outstanding funding commitments of approximately \$79,440,000 to fund pediatric research in the Atlanta, Georgia, area. These irrevocable research commitments were recorded as a component of purchased services in the year of commitment.

Income Taxes—Children’s is primarily composed of organizations that have been recognized by the Internal Revenue Service as tax exempt under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying consolidated statements of operations. Sibley Heart Center, The Children’s Health Network, and The Children’s Care Network are taxable entities and the provision for income taxes was not material for the years ended December 31, 2017 and 2016.

Consolidated Statements of Cash Flows—Cash payments for interest totaled approximately \$20,384,043 and \$19,454,000 for the years ended December 31, 2017 and 2016, respectively.

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

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017. Children’s is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit financial statements. ASU 2016-14 contains the following key aspects: a) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; b) requires all not-for-profit entities to present expenses by functional and their natural classifications in one location in the financial statements; c) requires not for profit entities to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the consolidated balance sheet date; and d) retains the option to present operating cash flows in the consolidated statement of cash flows using either the direct or indirect method. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods beginning after December 15, 2018, and early adoption is permitted. Management is currently evaluating the impact that the adoption of this guidance will have on Children’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which calls for the reporting of assets and liabilities arising from leases in a more transparent and neutral manner. ASU 2016-02 requires companies that lease assets to recognize a right-of-use asset and a lease liability initially measured at the present value of the lease payments, in its balance sheet. ASU 2016-02 will also require additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 applies to organizations that enter into a lease or sublease but is subject to several exemptions, none of which apply to Children's. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods thereafter, and early adoption is permitted. Management is currently evaluating the impact that the adoption of this guidance will have on Children's consolidated financial statements.

2. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENTS

Temporarily restricted net assets are those net assets whose use has been limited by donors to a specific time or purpose. Temporarily restricted net assets of approximately \$347,503,000 and \$321,358,000 as of December 31, 2017 and 2016, respectively, are available for various purposes, including charity care for children, investment in medical technology and facilities, and the expansion of medical services.

Children's receives restricted contributions on behalf of strategic partners for specific capital purposes. Such restricted contributions are recorded as contributions to temporarily restricted net assets and are reclassified from restriction when the amounts are sent to the intended recipient. For the years ended December 31, 2017 and 2016, Children's released from temporarily restricted net assets \$4,052,000 and \$1,864,000, respectively.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Investment income on permanently restricted net assets is generally available for unrestricted purposes. Permanently restricted net assets as of December 31, 2017 and 2016 were approximately \$216,621,000 and \$195,928,000, respectively.

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 as permanently restricted net assets 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 that is not classified as permanently restricted assets is classified as temporarily restricted net assets until those amounts 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 temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets and are excluded from revenues over expenses.

Children's investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by the endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Children's must hold in perpetuity and the

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

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

Children's has a policy of appropriating, for distribution each year, no more than 5% of its endowment funds based on a twelve-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, 2017 and 2016 is as follows (in thousands):

	2017			2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted funds	\$ -	\$ 200,098	\$ 216,621	\$ -	\$ 181,010	\$ 195,928
Board-designated funds	<u>25,503</u>	<u>-</u>	<u>-</u>	<u>23,223</u>	<u>-</u>	<u>-</u>
Total funds	<u>\$ 25,503</u>	<u>\$ 200,098</u>	<u>\$ 216,621</u>	<u>\$ 23,223</u>	<u>\$ 181,010</u>	<u>\$ 195,928</u>

Endowment net asset balances and activities for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance—December 31, 2015	\$ 20,240	\$ 174,692	\$ 176,857	\$ 371,789
Investment income and other	1,140	11,321	-	12,461
Increase in beneficial interest in trusts	-	-	7,808	7,808
Contributions and other	2,750	3,129	11,263	17,142
Appropriations for expenditures	<u>(907)</u>	<u>(8,132)</u>	<u>-</u>	<u>(9,039)</u>
Balance—December 31, 2016	23,223	181,010	195,928	400,161
Investment income and other	3,526	39,507	-	43,033
Increase in beneficial interest in trusts	-	-	12,553	12,553
Contributions and other	(11)	294	4,140	4,423
Transfers	-	(9,609)	4,000	(5,609)
Appropriations for expenditures	<u>(1,235)</u>	<u>(11,104)</u>	<u>-</u>	<u>(12,339)</u>
Balance—December 31, 2017	<u>\$ 25,503</u>	<u>\$ 200,098</u>	<u>\$ 216,621</u>	<u>\$ 442,222</u>

3. COMMUNITY BENEFIT AND CHARITY CARE

In accordance with its mission, Children's commits significant resources to promote the health and well-being of children. In support of this endeavor, Children's recognizes that some of its most fragile constituents are children whose families are financially or medically indigent. To that end, Children's provides medical treatment to children whose family or custodians are unable to pay for such treatment. Children's ensures that charity care, indigent care, education, research, and other sponsored community programs ("Community Benefit") benefit all children, regardless of economic status. Therefore, Children's maintains Community Benefit programs, within limits, that are available to the entire community, with equal consideration for those who are poor and underserved. Total Community Benefit for the year ended December 31, 2017 is estimated to be \$213,700,000. Total Community Benefit for the year ended December 31, 2016, as reported in annual filings to the Internal Revenue Service, was \$202,545,000.

Charity care, a component of Community Benefit, is unreimbursed costs for charity care and Medicaid services calculated using a cost-to-charge ratio times the amount of unreimbursed charges, net of funding from the state of Georgia for neonatal care, and other funding provided to defray these costs. Children's estimates charity care to be approximately \$138,700,000 for the year ended December 31, 2017. Total charity care for the year ended December 31, 2016, as reported in annual filings to the Internal Revenue Service, was \$132,475,000.

4. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use as of December 31, 2017 and 2016 is set forth in the following table (in thousands):

	2017	2016
Board-designated for asset acquisition, uncompensated care, debt service, strategic, and operational activities:		
Cash and cash equivalents	\$ 180,051	\$ 391,846
Equity securities	2,466,878	1,794,602
Debt securities	340,650	381,656
Hedge funds	820,908	594,252
Investments in nonmarketable securities	518,774	418,143
Cash, cash equivalents, and debt securities held for interest rate swap agreement	<u>21,640</u>	<u>22,820</u>
Subtotal	<u>4,348,901</u>	<u>3,603,319</u>
Bond agreement designated for asset construction—		
Cash and cash equivalents	<u>77,701</u>	<u>-</u>
Donor-restricted for special purposes, such as uncompensated child care:		
Cash and cash equivalents	15,356	36,386
Equity securities	210,393	166,645
Debt securities	29,053	35,440
Hedge funds	70,013	55,182
Investments in nonmarketable securities	<u>44,245</u>	<u>38,828</u>
Subtotal	<u>369,060</u>	<u>332,481</u>
Total assets whose use is limited	4,795,662	3,935,800
Less portion classified as current (Note 6)	<u>(58,615)</u>	<u>(35,488)</u>
Total assets whose use is limited—noncurrent	<u>\$4,737,047</u>	<u>\$3,900,312</u>

Investment Income and Other—Significant components of investment income and other for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Investment income:		
Interest and dividends—net of fees	\$ 58,865	\$ 42,761
Realized gains (losses) on sales of investments	173,014	(11,405)
Net unrealized gains on investments	308,372	134,197
Equity in income of unconsolidated investments	55,825	34,182
Losses on unassociated interest rate swaps	<u>(1,646)</u>	<u>(5,251)</u>
Total	<u>\$594,430</u>	<u>\$194,484</u>

Investments in Nonmarketable Securities Accounted for under the Equity

Method—The accompanying consolidated statements of operations reflect equity income related to Children’s investment in nonmarketable securities required to be accounted for under the equity method of accounting of approximately \$55,825,000 and \$34,182,000 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 is as follows (in thousands):

	2017	2016
Total assets	\$ 59,287,851	\$ 54,787,360
Total liabilities	4,200,441	2,129,253
Equity	55,087,410	52,658,022
Revenue	1,369,016	859,864
Net unrealized income	568,113	2,820,170
Net income	8,334,321	7,028,852

At December 31, 2017, Children’s had outstanding funding commitments to purchase general investment partnership interests of approximately \$422,480,000. These commitments will be met over the next five years.

5. 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, 2017 and 2016 as follows (in thousands):

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

Fair Value—December 31, 2016	Level 1	Level 2	Level 3	Total
Assets whose use is limited:				
Cash and cash equivalents	\$ 451,052	\$ -	\$ -	\$ 451,052
Equity securities:				
U.S. equities	158,645	-	-	158,645
Non U.S. equities	194,085	-	-	194,085
Real estate investments trusts	79,952	-	-	79,952
Debt securities:				
Government agencies	-	343,755	-	343,755
Corporate bonds	-	69,792	-	69,792
Other	-	-	3,549	3,549
Mutual funds:				
Equity funds	1,229,999	261,873	-	1,491,872
Fixed-income funds	-	36,693	-	36,693
Beneficial interests in trusts	-	-	143,292	143,292
Total assets at fair value	<u>2,113,733</u>	<u>712,113</u>	<u>146,841</u>	2,972,687
Net Asset Value:				
Hedge funds				<u>649,434</u>
Total				<u>\$3,622,121</u>
Liabilities—interest rate swap agreements				
	<u>\$ -</u>	<u>\$ 90,284</u>	<u>\$ -</u>	<u>\$ 90,284</u>

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

Investments Measured at Net Asset Value

Hedge Funds—As of December 31, 2017 and 2016, Children’s held approximately \$890,921,000 and \$649,434,000, 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 45–90 days. These funds are measured at net asset value. No unfunded commitments existed with respect to these hedge funds as of December 31, 2017.

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

The changes in assets classified as Level 3 for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	Beneficial Interest in Trust	Other	Total
Balance—December 31, 2015	\$135,484	\$ 3,782	\$139,266
Additions	-	1,051	1,051
Disposals	-	(1,377)	(1,377)
Realized and unrealized gains and losses—net of fees	<u>7,808</u>	<u>93</u>	<u>7,901</u>
Balance—December 31, 2016	143,292	3,549	146,841
Additions	-	3,431	3,431
Disposals and other	-	(6,866)	(6,866)
Realized and unrealized gains and losses—net of fees	<u>12,553</u>	<u>(114)</u>	<u>12,439</u>
Balance—December 31, 2017	<u>\$155,845</u>	<u>-</u>	<u>\$155,845</u>

During the years ended December 31, 2017 and 2016 there were no significant transfers between Level 1, Level 2, or Level 3 investments.

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

Long-Term Debt—The fair value of long-term debt (a Level 2 measurement) is estimated based on quoted market prices for the same issues. The estimated fair values of long-term debt are \$657,536,000 and \$453,944,000 at December 31, 2017 and 2016, respectively.

6. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
2008 Certificates & Bonds—2008 variable rate revenue anticipation certificates and bonds due July 2042. Interest rates range from .65% to 1.74% for the year ended December 31, 2017. Mandatory sinking fund redemption beginning July 2009.	\$177,440	\$179,120
2009 Certificates & Bonds—2009 fixed rate revenue anticipation certificates and bonds due November 2039. Interest rates range from 4.00% to 5.25%, payable semiannually—net of unamortized premium of \$2,171 in 2017 and \$2,002 in 2016. Mandatory sinking fund redemption beginning November 2024.	239,974	248,688
2017 Certificates & Bonds—2017 variable rate revenue anticipation certificates and bonds due July 2051. Interest rates range from 1.11% to 1.36% for the year ended December 31, 2017	220,000	-
2013 Surgery Center Commercial Note—term note payable to bank due March 2021. Interest rate of 3.5%. Principal and interest payable monthly.	<u>1,087</u>	<u>1,395</u>
Subtotal	638,501	429,203
Less bond issuance costs	(3,774)	(2,919)
Less current maturities of long-term debt	(11,102)	(10,702)
Less long-term debt classified as current due to terms of standby purchase agreements	<u>(58,615)</u>	<u>(35,488)</u>
Long-term debt—net of portion classified as current	<u>\$565,010</u>	<u>\$380,094</u>

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

The 2008 Certificates & Bonds are remarketed on a weekly basis and the bondholders have the ability to tender any or all of the certificates and bonds at each remarketing date. Children's has standby bond purchase agreements ("SBPAs") with a financial institution to serve as security for the payment of 2008 Certificates & Bonds. In the event bondholders elect to tender any or all of the 2008 Certificates & Bonds for purchase and the revenue anticipation certificates are not able to be remarketed, the SBPAs are utilized to purchase the revenue anticipation certificates. Any amounts outstanding on the SBPAs are repayable by Children's over three year and five year terms in 2017 and 2016, respectively. As a

result, Children's has included \$58,615,000 and \$35,488,000 in current liabilities as of December 31, 2017 and 2016, respectively. There were no amounts outstanding at December 31, 2017 or 2016.

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

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

Interest Rate Swap Agreements—In connection with certain bond issues, Children's entered into interest rate swap agreements with three banks effectively converting Children's interest rate exposure on a portion of this debt from a variable to a fixed rate. Children's does not follow hedge accounting for these interest rate swaps. The interest rate swaps had an aggregate notional amount of approximately \$352,115,000 and \$357,170,000 at December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, Children's has recorded a liability of approximately \$84,649,000 and \$90,284,000, 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 \$5,635,000 and \$7,855,000 is included in revenues over expenses in the accompanying consolidated statements of operations for the years ended December 31, 2017 and 2016, respectively.

The portion of the interest rate swap agreements, discussed above, that were associated with the revenue anticipation certificates and bonds refunded by the 2009 Certificates & Bonds were held as an investment ("Unassociated Interest Rate Swaps") until the issuance of the 2017 Certificates and Bonds. The Unassociated Interest Rate Swaps had a notional amount of \$178,050,000 outstanding as of December 31, 2016. Prior to April 2017, losses on Unassociated Interest Rate Swaps were included in investment income and other in the accompanying consolidated statements of operations. Subsequent to March 2017, gains/losses associated with these interest rate swaps are recorded as interest expense in the accompanying consolidated statements of operations or as capitalized interest in property, plant and equipment on the consolidated balance sheets.

Bond Issuance Costs—Costs incurred in issuing long-term debt are amortized over the life of the underlying debt. The gross amount of bond issuance costs as of December 31, 2017 and 2016 totaled \$5,844,000 and \$4,772,000, respectively and the related accumulated amortization totaled \$2,070,000 and \$1,853,000, respectively.

Debt Maturities—Future scheduled maturities of long-term debt as of December 31, 2017 are as follows (in thousands):

Years Ending December 31	
2018	\$ 11,009
2019	11,526
2020	12,053
2021	12,364
2022	12,840
Thereafter	<u>580,880</u>
Total	<u>\$640,672</u>

7. RETIREMENT BENEFITS

Children’s maintains defined contribution retirement plans. Contributions to the plans were \$37,766,000 and \$32,490,000 for the years ended December 31, 2017 and 2016, respectively.

8. COMMITMENTS AND CONTINGENCIES

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

The accrual for self-insured general and professional medical malpractice losses, including loss adjustment expense, is based on actuarial estimates using historical claims experience adjusted for current industry trends. The actual claim settlements and expenses may differ from amounts provided, but in the opinion of management, an adequate accrual has been made for such claims at December 31, 2017 and 2016.

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

Leases—Children’s leases office space and equipment under various operating leases. Total rent expense for all operating leases amounted to approximately \$16,375,000 and \$16,042,000 for the years ended December 31, 2017 and 2016, respectively.

Future aggregate minimum rental commitments under all noncancelable operating leases as of December 31, 2017 are as follows (in thousands):

**Years Ending
December 31**

2018	\$16,437
2019	14,611
2020	12,515
2021	7,777
2022	5,925
Thereafter	<u>8,318</u>
Total	<u>\$65,583</u>

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.

9. FUNCTIONAL EXPENSES

Children’s primarily provides inpatient and outpatient medical care for pediatric residents in the Atlanta metropolitan area. Expenses relating to providing these services for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Healthcare services	\$ 1,226,306	\$ 1,131,138
General and administrative	<u>232,714</u>	<u>235,556</u>
Total	<u>\$ 1,459,020</u>	<u>\$ 1,366,694</u>

10. SUBSEQUENT EVENTS

Children’s has evaluated events and transactions for potential recognition or disclosure through May 22, 2018, the date the consolidated financial statements were issued.

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