

Children's Hospital and Health System, Inc., and Affiliates

Consolidated Financial Statements as of and for the
Years Ended December 31, 2019 and 2018,
Supplementary Consolidating Information as of
and for the Year Ended December 31, 2019, and
Independent Auditors' Reports

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018:	
Statements of Financial Position	3-4
Statements of Operations and Changes in Net Assets	5-6
Statements of Cash Flows	7-8
Notes to Consolidated Financial Statements	9-37
SUPPLEMENTARY CONSOLIDATING INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019:	38
Independent Auditors' Report on Supplementary Consolidating Information	39
Statement of Financial Position Information	40-41
Statement of Operations and Changes in Net Assets without Donor Restrictions Information	42
Statement of Operations and Changes in Net Assets – Foster Care Medical Home	43
Notes to Supplementary Consolidating Information	44

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Children's Hospital and Health System, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Children's Hospital and Health System, Inc. and Affiliates (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and of cash flows for the years then ended, and the related notes to the 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 from 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 the Organization'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 the Organization'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 Hospital and Health System, Inc. and Affiliates as of December 31, 2019 and 2018, and the results of their operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for leases in the year ended December 31, 2019 due to the adoption of ASU No. 2016-02 *Leases* (Topic 842) using the modified retrospective method.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 16 of the consolidated financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

April 22, 2020

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 220,566	\$ 216,475
Patient accounts receivable	97,094	89,492
Other receivables	65,645	36,213
Inventory of supplies	13,602	10,599
Prepaid expenses	<u>22,560</u>	<u>18,258</u>
Total current assets	<u>419,467</u>	<u>371,037</u>
INVESTMENTS	<u>1,123,287</u>	<u>934,581</u>
ASSETS LIMITED AS TO USE:		
Limited under bond indentures for capital additions	28,447	93,085
Restricted by donors for specific purpose	78,994	53,638
Restricted by donors in perpetuity	<u>203,767</u>	<u>174,533</u>
Total assets limited as to use	<u>311,208</u>	<u>321,256</u>
PROPERTY AND EQUIPMENT—Net	<u>514,817</u>	<u>456,129</u>
LEASE ASSETS	72,114	-
OTHER ASSETS	<u>28,156</u>	<u>18,425</u>
TOTAL	<u>\$2,469,049</u>	<u>\$2,101,428</u>

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 53,105	\$ 49,041
Accrued expenses:		
Salaries and benefits	54,345	50,857
Personal leave benefits	26,142	25,251
Interest	4,946	4,958
Estimated third-party payor settlements	699	1,145
Current installments of long-term debt	6,845	6,690
Short term lease liability	11,253	-
Claims payable and other current liabilities	<u>84,768</u>	<u>78,486</u>
Total current liabilities	242,103	216,428
OTHER LONG-TERM LIABILITIES	63,485	57,723
ACCRUED PENSION	36,478	37,287
LONG TERM LEASE LIABILITY	69,418	-
LONG-TERM DEBT—Less current installments	<u>344,365</u>	<u>351,906</u>
Total liabilities	<u>755,849</u>	<u>663,344</u>
COMMITMENTS AND CONTINGENCIES (Note 9 and Note 14)		
NET ASSETS:		
Without donor restrictions	<u>1,430,439</u>	<u>1,209,913</u>
With donor restrictions:		
Restricted by purpose	78,994	53,638
Restricted in perpetuity	<u>203,767</u>	<u>174,533</u>
Total net assets	<u>282,761</u>	<u>228,171</u>
Total net assets	<u>1,713,200</u>	<u>1,438,084</u>
TOTAL	<u>\$2,469,049</u>	<u>\$2,101,428</u>

See notes to consolidated financial statements.

(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

	2019	2018
OPERATING REVENUE:		
Net patient service revenue	\$ 785,620	\$ 728,374
Premium revenue and other capitated arrangements	365,397	461,408
Other	<u>121,332</u>	<u>102,274</u>
Total operating revenue	<u>1,272,349</u>	<u>1,292,056</u>
OPERATING EXPENSES:		
Salaries	365,767	348,683
Employee benefits	102,765	99,160
Medical and pharmaceutical supplies	109,553	89,243
Non-medical supplies and other	30,734	31,793
Net medical claims expenses	259,700	335,916
Purchased services and professional fees	135,369	133,641
Operation and maintenance of facilities	42,183	39,433
Medical College of Wisconsin and resident fees	58,678	55,518
Provider tax	10,622	10,751
Depreciation	62,817	63,178
Interest	<u>11,554</u>	<u>12,807</u>
Total operating expenses	<u>1,189,742</u>	<u>1,220,123</u>
OPERATING INCOME	<u>82,607</u>	<u>71,933</u>
NONOPERATING INCOME (EXPENSES):		
Investment income	37,670	52,229
Change in net unrealized gains and losses on investments	126,158	(81,021)
Other	<u>(3,908)</u>	<u>(2,768)</u>
Net nonoperating income (expenses)	<u>159,920</u>	<u>(31,560)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 242,527</u>	<u>\$ 40,373</u>

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenue over expenses	\$ 242,527	\$ 40,373
Net assets released from restrictions—capital acquisitions	2,747	1,706
Pension-related changes other than net periodic pension cost	<u>(24,748)</u>	<u>(4,233)</u>
Increase in net assets without donor restrictions	<u>220,526</u>	<u>37,846</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	39,631	14,851
Investment return	34,536	(8,723)
Net assets released from restrictions—capital acquisitions	(2,747)	(1,706)
Net assets released from restrictions—operations	<u>(16,830)</u>	<u>(16,982)</u>
Increase (Decrease) in net assets with donor restrictions	<u>54,590</u>	<u>(12,560)</u>
INCREASE IN NET ASSETS	275,116	25,286
NET ASSETS—Beginning of year	<u>1,438,084</u>	<u>1,412,798</u>
NET ASSETS—End of year	<u>\$1,713,200</u>	<u>\$1,438,084</u>

See notes to consolidated financial statements.

(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

	2019	2018
OPERATING ACTIVITIES:		
Increase in net assets	\$ 275,116	\$ 25,286
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Restricted contributions and pledges for capital projects, investment income, and contributions restricted in perpetuity	(8,928)	(14,442)
Pension-related changes other than net periodic pension cost	24,748	4,233
Change in net unrealized gains and losses on investments	(154,754)	101,396
Realized gain on sale of investments	(13,463)	(39,506)
Depreciation of property and equipment	62,817	63,178
Amortization and other	127	(95)
Changes in operating assets and liabilities:		
Patient accounts receivable	(7,602)	(406)
Other receivables	(29,432)	2,304
Inventory, prepaid and deferred expenses, and other assets	(34,340)	(4,836)
Lease assets and liabilities	8,557	-
Accounts payable	4,802	6,304
Estimated third-party payor settlements	(446)	(389)
Other accrued expenses and liabilities	16,411	58,286
Accrued pension	(25,557)	(360)
Net cash provided by operating activities	<u>118,056</u>	<u>200,953</u>
INVESTING ACTIVITIES:		
Capital expenditures	(127,397)	(61,739)
Purchases of investments	(413,175)	(687,469)
Proceeds from sales of investments	<u>422,291</u>	<u>568,005</u>
Net cash used in investing activities	<u>(118,281)</u>	<u>(181,203)</u>
FINANCING ACTIVITIES:		
Payments on long-term borrowings	(6,690)	(6,295)
Proceeds from contributions for capital projects and endowments	<u>11,006</u>	<u>16,963</u>
Net cash provided by financing activities	<u>4,316</u>	<u>10,668</u>

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

	2019	2018
INCREASE IN CASH AND CASH EQUIVALENTS	\$ 4,091	\$ 30,418
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>216,475</u>	<u>186,057</u>
End of year	<u>\$ 220,566</u>	<u>\$ 216,475</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for interest	<u>\$ 13,709</u>	<u>\$ 9,535</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY—Capital acquisitions funded through accounts payable	<u>\$ 3,299</u>	<u>\$ 4,037</u>

See notes to consolidated financial statements.

(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

1. ORGANIZATION

Children's Hospital and Health System, Inc., and Affiliates (CHHS) is committed to ensuring a healthier future for children by providing an integrated health services network for infants, children, and adolescents, advocating on their behalf, and discovering new ways to keep kids healthy. CHHS' consolidated financial statements include the following:

Children's Hospital and Health System, Inc.—A not-for-profit organization that delivers outpatient health care services, administers a foster care medical home, and provides operational support services, research, and health education services. Children's Hospital and Health System, Inc., is the sole corporate member, or sole shareholder of the for-profit corporation where applicable, of the following entities:

Children's Hospital of Wisconsin, Inc. (the "Hospital"), which consists of the following:

- *Children's Hospital of Wisconsin—Milwaukee*, a 298-bed, independent pediatric hospital
- *Children's Hospital of Wisconsin—Fox Valley*, a 42-bed, independent pediatric hospital, which includes a 22-bed neonatal intensive care unit, located on the campus of Theda Clark Medical Center

Organizationally, these independently licensed, not-for-profit hospitals operate under the Hospital's corporate entity and federal tax identification number.

Children's Hospital of Wisconsin Foundation, Inc. (the "Foundation")—A not-for-profit foundation that solicits funds for the maintenance and benefit of the Hospital and CHHS, their programs and activities, and other affiliated not-for-profit organizations within the state of Wisconsin.

Children's Medical Group, Inc.—A not-for-profit organization established for the purpose of providing pediatric primary care services.

Children's Service Society of Wisconsin (CSSW)—A statewide not-for-profit organization that provides child well-being services. CSSW provides services to children and their families in the areas of child welfare, foster care case management, counseling, prevention services, and out-of-home care.

Children's Community Health Plan, Inc. (CCHP)—A nonstock, not-for-profit health insurance organization licensed in the state of Wisconsin under Chapter 613 of the Wisconsin Statutes, *Service Insurance Corporations*. CCHP offers both a Medicaid HMO and commercial exchange product to its members.

Surgicenter of Greater Milwaukee, LLC (the "Surgicenter")—A Wisconsin limited liability company wholly owned by Children’s Hospital and Health System, Inc., that consists of an ambulatory surgery center and a medical office building.

Skywalk Pharmacy Center—Consisting of **Wauwatosa Prescription Center, Inc.** and **West Allis Prescription Center, Inc.** which are for-profit retail pharmacy corporations that provide full service retail and pediatric pharmacy services.

Obligated Group—The Hospital and Foundation are the only members of the obligated group (the Obligated Group) for purposes of the issuance of bonds through the Wisconsin Health and Educational Facilities Authority (WHEFA) (see Note 8).

Children’s Specialty Group, Inc. (CSG)—A joint venture between CHHS and the Medical College of Wisconsin (MCW) that provides pediatric specialty health care services. CHHS accounts for its interest in CSG under the equity method of accounting, however, pursuant to an operating agreement, as amended, between CHHS and MCW, all earnings and any material distributions flow to MCW or are retained in CSG for future program development. Therefore, there was no investment recorded in CSG as of December 31, 2019 and 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements of CHHS have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimated amounts in the consolidated financial statements include contractual allowances, investments, pension obligations, and claims payable.

Cash and Cash Equivalents—Cash and cash equivalents include highly liquid investments purchased with original maturities of three months or less.

Contributions Revenue and Contributions Receivable, Net—Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions that represent a barrier are overcome and CHHS is entitled to the assets promised. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Contributions that impose restrictions that are met in the same fiscal year as the contributions are received are included in other operating revenue or net assets without donor restrictions.

Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as other operating revenue. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as an increase in net assets with donor restrictions until the long-lived assets are placed into service.

Inventory of Supplies—Inventory of supplies is stated at the lower of cost or market, determined using the first-in, first-out method.

Investments—Investments are reported at fair value based primarily upon quoted market prices in active markets, other observable inputs, or unobservable inputs. Both realized and unrealized gains and losses are included in the consolidated statements of operations and changes in net assets, and the change in net unrealized gains or losses on investments without donor restrictions is included within the excess of revenue over expenses. Investment income on funds is allocated between net assets without donor restrictions and net assets with donor restrictions based on amounts invested and donor restrictions. CHHS continues to elect the fair value option for all fixed-income, equity, and mutual fund purchases. Investments without donor restrictions are not intended to be used for current operations, and therefore, are classified as noncurrent assets.

Assets Limited as to Use—Assets limited as to use include assets with donor restrictions and assets held by trustees under indenture agreements.

Pledges—Pledges are recorded based on written instructions from donors. Pledges, less allowances for estimated uncollectible amounts, are recorded as receivables in the year received. Pledges without donor restrictions are recorded as contributions within other operating revenue, and pledges with donor restrictions are recorded as increases in net assets with donor restrictions.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from three to 40 years, using American Hospital Association guidelines. Interest costs incurred on borrowed funds during the period of construction are capitalized as a component of the costs of acquiring these assets. Costs of computer software developed or obtained for internal use (including external direct costs of materials and services, payroll, and payroll-related costs for employees directly associated with internal use software development projects incurred during the development period) are expensed or capitalized depending on whether the costs are incurred in the preliminary project stage, development stage, or operational stage. These assets are included in major movable equipment.

CHHS periodically evaluates the carrying value of land, property, equipment, and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. CHHS recorded an impairment charge of \$4,400 in 2019 on a recently purchased building for which it paid higher than fair market value to acquire. There were no other impairment charges recorded for the years ended December 31, 2019 and 2018.

Net Assets with Donor Restrictions—Donor restrictions by purpose are for various health-related services, capital projects, child welfare services, research, and for time-restricted remainderman trusts and estates. Donor restrictions in perpetuity restrict the funds to be held in perpetuity, with the investment income released for expenditure to various health-related services, child welfare services, and research.

When a donor restriction expires, such as when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as other operating revenue (if used for operating purposes) or as net assets released from restrictions—capital acquisitions. Contributions received without donor restrictions are reported as other operating revenue.

Excess of Revenue over Expenses—The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, include contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets), pension-related changes other than net periodic pension cost, and other items in accordance with industry practice.

Net Patient Service Revenue—Net patient service revenue is reported at the amount that reflects the consideration to which CHHS expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third party payors (including managed care payors and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, patients and third party payors are billed within days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount.

Performance obligations are determined based on the nature of the services provided by CHHS. Revenues for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected (or actual) charges. CHHS believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services. CHHS measures the performance obligation from admission into the hospital, or commencement of outpatient services, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. For outpatient services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same results as recognizing the obligation at a point in time. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided and CHHS does not believe it is required to provide additional services to the patient. As CHHS's performance obligations relate to contracts with a duration of less than one year, CHHS elected to apply the optional exemption provided in the guidance and is not, therefore, required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

CHHS determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with CHHS' policies and/or implicit price concessions provided to uninsured or underinsured patients. CHHS determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. CHHS determines its estimates of implicit price concessions based on its historical collection experience with a respective class of patient.

CHHS uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The

portfolio consists of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analyses, CHHS believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

CHHS elects the practical expedient allowed under the FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third party payors for the effects of a significant financing component due to CHHS' expectation that the period between the time the services are provided to a patient and the time that the patient or a third party payor pays for that service will be one year or less. CHHS does in certain instances enter into payment arrangements with patients that allow payments in excess of one year; however, in these cases the financing component is not deemed to be significant to the contract.

CHHS does not incur significant incremental costs in obtaining contracts with patients. As permitted in the guidance, any costs which are incurred are expensed in the period of occurrence, as the amortization period of any asset that CHHS would have recognized is one year or less in duration.

Premium Revenue and Other Capitated Arrangements—Premium revenue is recognized during the period in which CCHP or CHHS is obligated to provide services.

Other Operating Revenue—Other operating revenue comprises grants, contributions without donor restrictions, net assets released from restrictions for operations, rental income, cafeteria revenue, and other revenue. This includes awards from the Department of Health and Human Services for medical education, net of estimated retroactive adjustments.

Donated Goods and Services—CHHS has recorded the estimated fair market value of donated goods and services as revenue and expenses in the consolidated statements of operations and changes in net assets. The amount recorded was \$541 and \$461 for the years ended December 31, 2019 and 2018, respectively. Included in the value of donated goods and services are materials, such as raffle items, auction items, food and beverages, printing, and videotaping services.

CHHS also receives various donated goods and services for which no comparable fair market value is readily determinable. Accordingly, these items are not recorded in the consolidated financial statements.

Professional Liability Insurance—CHHS, along with substantially all Wisconsin health care providers, has professional liability insurance through the Injured Patients and Families Compensation Fund (the "Fund"). CHHS maintains an occurrence basis policy that covers professional liability claims occurring during the policy term, with insurance coverage limits of \$1,000 for each occurrence and \$3,000 for all occurrences in any policy year. The Fund is responsible for paying claims in excess of these limits. CHHS is required to pay an annual assessment to the Fund for the purpose of providing the Fund with monies for payment of claims.

Laws and Regulations—CHHS is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Management believes that CHHS is in substantial compliance with current laws and regulations.

Leases—Effective January 1, 2019, CHHS recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. CHHS is a lessee in several noncancelable operating leases, primarily for office and clinical space. CHHS determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. CHHS recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise CHHS uses its incremental borrowing rate. The implicit rates of the leases are not readily determinable and accordingly, CHHS uses the incremental borrowing rate based on the information available at the commencement date for all leases. CHHS' incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Judgment is required as to the lease term when renewal options are present in the lease. Lease term is based on initial lease term excluding renewal periods for most sites. Other sites included renewal periods when reasonably certain options would be exercised. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

Litigation—CHHS is involved in litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect on the consolidated financial position or consolidated results of operations.

Income Taxes—The CHHS not-for-profit organizations (see Note 1) are tax-exempt organizations under Sections 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Surgicenter is treated as a partnership for income tax purposes, and since it is owned by a tax-exempt entity, it is treated as a disregarded entity of Children's Hospital and Health System, Inc. CCHP is exempt from federal income taxes, but is subject to state income taxes as the State of Wisconsin does not recognize CCHP's federal tax-exempt status. Wauwatosa Prescription Center, Inc. and West Allis Prescription Center, Inc. are both subject to state and federal income taxes. CHHS evaluates its uncertain tax positions on an annual basis, and there have been no uncertain tax positions recorded for the years ended December 31, 2019 and 2018.

Recently Adopted Accounting Standard Updates—In 2019, CHHS adopted FASB ASU 2016-02, *Leases*, which is intended to improve financial reporting related to leasing transactions. This ASU requires a lessee to recognize on the balance sheet assets and liabilities for rights and obligations created by leased assets with lease terms of more than 12 months. The guidance also requires disclosures to help users of the financial statements better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The effect on the results of operations was not significant. The impact of this standard increased long-term assets by \$72,114 and short-term and long-term liabilities by \$80,671. Upon transition, CHHS elected the package of three practical expedients and as such, did not reassess (1) whether any expired or existing leases are or contain leases, (2) the lease classification for any expired or existing leases, or (3) initial direct costs for any existing leases.

In 2019, CHHS adopted FASB ASU 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*. This update addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The adoption of this standard did not have a material impact on CHHS' financial position or results of operations.

In 2019, CHHS adopted FASB ASU 2016-18, *Statement of Cash Flows—Restricted Cash*, which required that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Adoption of this update did not have a material impact on CHHS' financial position or results of operations.

In 2019, CHHS adopted FASB ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. Adoption of this update did not have a material impact on CHHS' financial position or results of operations.

In 2019, CHHS adopted FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies and improves the scope and the accounting guidance for contributions received and made with the objective of reducing the existing diversity in practice. Adoption of this update did not have a material impact on CHHS' financial position or results of operations.

Accounting Standard Updates Pending Adoption—In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance amends the disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures. This ASU will be effective for CHHS as of January 1, 2020. CHHS does not expect that the guidance will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. This guidance amends the disclosure requirements applicable to all employers that sponsor defined benefit pension or other

postretirement plans by removing and adding certain disclosures. This ASU will be effective for CHHS as of January 1, 2021. CHHS is evaluating the impact that the guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance requires an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset and which costs to expense as incurred. Also, this guidance requires the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. Further, the guidance requires the entity to present the expense related to the capitalized implementation costs in the same line item in the consolidated statement of operations and changes in net assets as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the consolidated statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the consolidated balance sheet in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. This ASU will be effective for CHHS as of January 1, 2021. CHHS is evaluating the impact that the guidance will have on its consolidated financial statements.

Subsequent Events—CHHS has evaluated subsequent events through April 22, 2020, the date the consolidated financial statements were issued. In March 2020, the World Health Organization recognized the novel strain of coronavirus ("COVID-19"), as a pandemic. In response to this COVID-19 outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Accordingly, the COVID-19 outbreak has severely restricted the level of economic activity in many countries and continues to adversely impact global economic activity and has contributed to significant volatility in financial markets. CHHS is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, customers, industry and workforce. Given the rapid development and fluidity of this situation, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal 2020.

In April 2020, the Hospital finalized purchase of all the land subject to the land lease agreements with Milwaukee County (see note 9). Payment terms of the purchase are consistent with the terms of the original lease agreements.

3. CASH, CASH EQUIVALENTS, INVESTMENTS, AND ASSETS LIMITED AS TO USE

Cash, cash equivalents, investments, and assets limited as to use as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Cash	\$ 208,266	\$ 206,201
Investments at fair value:		
Money market funds (cash equivalent)	15,620	28,369
Accrued investment income	3,456	3,759
U.S. government securities	218,318	243,782
U.S. government agency mortgage-backed securities	160,423	148,499
Corporate fixed-income securities	147,686	143,587
International fixed-income securities	82,479	75,863
Municipal fixed-income securities	3,020	3,016
Pooled fixed-income mutual funds	73,653	70,702
Blended mutual funds	58,307	40,268
Alternative investments-equities	30,416	11,894
Domestic equity securities and mutual funds	485,324	373,834
International equity securities and mutual funds	<u>123,643</u>	<u>97,739</u>
Total	<u>\$1,610,611</u>	<u>\$1,447,513</u>

These assets are classified on the consolidated statements of financial position as of December 31, 2019 and 2018, as follows:

	2019	2018
Cash and cash equivalents	\$ 220,566	\$ 216,475
Investments	1,123,287	934,581
Assets limited as to use:		
Limited under bond indentures for capital additions	28,447	93,085
Restricted by donors for specific purpose	47,274	42,377
Restricted by donors in perpetuity	<u>191,037</u>	<u>160,995</u>
Total	<u>\$1,610,611</u>	<u>\$1,447,513</u>

4. NET ASSETS

CHHS has assets that are restricted by donors either for a specific purpose or to be held in perpetuity. Net assets with donor restrictions for a specific purpose represent amounts that are to be used for capital acquisitions or operating purposes. Net assets with donor restrictions to be held in perpetuity are maintained in accordance with the donor's wishes, and accordingly, may be maintained in perpetuity or may allow for the annual release of funds for expenditure. Board designated assets represent unrestricted funds to be used for future strategic initiatives and require board approval for appropriations from the fund. As of December 31, 2019 and 2018, net assets without donor restrictions are held for the following purposes:

	2019	2018
Net assets without donor restrictions:		
Undesignated	\$ 905,571	\$ 801,497
Board designated	<u>524,868</u>	<u>408,416</u>
 Total net assets without donor restrictions	 <u>\$ 1,430,439</u>	 <u>\$ 1,209,913</u>

As of December 31, 2019 and 2018, net assets with donor restrictions are held for the following purposes:

	Subject to Expenditure for Specified Purpose		Subject to Spending Policy and Appropriation		Total	
	2019	2018	2019	2018	2019	2018
Net assets with donor restrictions:						
Health care services	\$74,663	\$48,021	\$201,613	\$172,675	\$276,276	\$220,696
Capital projects	538	1,890	915	787	1,453	2,677
Health education	2,153	2,183	315	277	2,468	2,460
Social services	<u>1,640</u>	<u>1,544</u>	<u>924</u>	<u>794</u>	<u>2,564</u>	<u>2,338</u>
 Total net assets with donor restrictions	 <u>\$78,994</u>	 <u>\$53,638</u>	 <u>\$203,767</u>	 <u>\$174,533</u>	 <u>\$282,761</u>	 <u>\$228,171</u>

As of December 31, 2019 and 2018, the assets of CHHS designated for restricted purposes include the following:

	Subject to Expenditure for Specified Purpose		Subject to Spending Policy and Appropriation		Total	
	2019	2018	2019	2018	2019	2018
Investments—						
Endowment	\$10,365	\$ 6,957	\$191,037	\$160,995	\$201,402	\$167,952
Investments—other	36,909	35,420	-	-	36,909	35,420
Pledges receivable—net	30,951	10,521	9,586	10,505	40,537	21,026
Charitable trusts and bequests	<u>769</u>	<u>740</u>	<u>3,144</u>	<u>3,033</u>	<u>3,913</u>	<u>3,773</u>
 Total	 <u>\$78,994</u>	 <u>\$53,638</u>	 <u>\$203,767</u>	 <u>\$174,533</u>	 <u>\$282,761</u>	 <u>\$228,171</u>

5. ENDOWMENT INVESTMENTS

The Foundation manages one investment portfolio and allocates a portion of the investments to assets limited as to use based on the amount of net assets with restrictions, less outstanding pledges and trusts. The Foundation follows the direction set forth by the donor to determine the preservation of the historic value of endowment funds. Restricted investments are adjusted for fair value changes or investment returns when specifically required by the donor's wishes.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the law requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature for the years ended December 31, 2019 and 2018.

The Foundation does not limit its spending of purpose-restricted donations based on its investment portfolio and return objectives. Purpose-restricted funds become available for expenditure once cash is received from the donor and the circumstances requested by the donor occur. Certain donors have elected to follow the Foundation's endowment policy whereby the endowment funds retain their related investment returns and release an annual allocation for spending based on each fund's historical value. All other endowment funds are maintained in perpetuity, while the related investment income is released for spending based on the donor's wishes. In order to preserve Foundation assets and plan annual grants in support of pediatric activities in accordance with the Foundation's articles of incorporation, expenditures of Foundation assets without donor restrictions are limited to 5% of the trailing three-year fair market value of cash and investments without donor restrictions. This policy can be adjusted with the approval of the board of directors.

The Foundation's primary objective for endowment funds is to optimize the total return of Foundation funds and preserve capital within stated parameters, and secondarily to generate current income. The Investment Subcommittee of the CHHS Board of Directors (the "Investment Subcommittee") evaluates an investment manager's performance against their respective benchmark.

The Foundation targets a long-term asset allocation mix of approximately 65% risk assets (defined as the sum of equities and alternatives) with the balance in fixed-income securities. The Investment Subcommittee monitors and controls the distribution of investments among its selected investment managers to maintain a maximum-minimum range of 70% to 50% for equities, 10%–0% for alternative investments, and 50%–20% for fixed-income securities. The diversification of securities held in each investment manager's portfolio, among sectors and issuers, is the responsibility of each investment manager, consistent with the market objectives identified at the time of the initial investment. Each investment manager is expected to diversify the portfolio sufficiently to minimize the risk of a large loss from a single security or from the securities of a single issuer.

Information regarding the composition of the Foundation endowment fund activity as of and for the years ended December 31, 2019 and 2018, is as follows:

	Total	Board Designated Endowment Funds	Donor- Restricted Endowment Funds
Balances—December 31, 2017	\$579,587	\$401,389	\$178,198
Total investment return	(28,289)	(19,604)	(8,685)
Contributions	5,585	631	4,954
Transfers to board designated	26,000	26,000	-
Net assets released from restrictions	<u>(6,515)</u>	<u>-</u>	<u>(6,515)</u>
Balances—December 31, 2018	576,368	408,416	167,952
Total investment return	124,069	89,657	34,412
Contributions	5,121	795	4,326
Transfers to board designated	26,000	26,000	-
Net assets released from restrictions	<u>(5,288)</u>	<u>-</u>	<u>(5,288)</u>
Balances—December 31, 2019	<u>\$726,270</u>	<u>\$524,868</u>	<u>\$201,402</u>

The information above reflects the activity of the Foundation's endowment investable funds. The above information excludes pledge receivables and charitable trusts and bequests of \$12,730, \$13,538, and \$14,763, from funds with donor restrictions as of December 31, 2019, 2018, and 2017, respectively.

Pledges—As of December 31, 2019 and 2018, pledges receivable of \$40,721 and \$21,092, respectively, were recorded. Pledges receivable in excess of one year are discounted at the risk-free rate in the year the pledge is received. Discount rates ranged from 1.4% to 2.5% and 0.7% to 2.5% as of December 31, 2019 and 2018, respectively. Such discounts amounted to \$1,768 and \$917 as of December 31, 2019 and 2018, respectively. Allowances for uncollectible pledges totaled \$1,205 and \$800 as of December 31, 2019 and 2018, respectively. The maturities of the pledges receivable as of December 31, 2019 and 2018, are as follows:

Pledges—less than one year	\$ 11,877	\$ 9,043
Pledges—one to five years	28,129	11,050
Pledges—over five years	715	999

Charitable Trusts and Bequests—As of December 31, 2019 and 2018, \$3,913 and \$3,773, respectively, of charitable trusts and bequests have been recorded where the Foundation is an irrevocable beneficiary. Such assets are recorded as restricted by purpose or restricted in perpetuity until the stipulations of the donors have been satisfied. These charitable trusts and bequests are recorded at estimated fair value. Assumptions used to determine the fair values as of December 31, 2019 and 2018, include an investment rate of return of 5.25% and a discount rate using the federally published rate in effect at the time the gift was received.

The Foundation has a policy whereby charitable trusts are recorded when the trust is irrevocable, and the current value of the trust assets is available. The Foundation is aware of certain trusts for which it may be the beneficiary, which do not meet these criteria. Estimates of the value of such trusts are not recorded in the consolidated financial statements.

6. PROPERTY AND EQUIPMENT

As of December 31, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Cost of property and equipment:		
Land	\$ 1,723	\$ 1,723
Buildings and improvements	689,864	646,179
Major movable equipment	262,516	249,387
Projects in progress	<u>74,052</u>	<u>33,934</u>
Total cost of property and equipment	1,028,155	931,223
Less accumulated depreciation and amortization	<u>(513,338)</u>	<u>(475,094)</u>
Property and equipment—net	<u>\$ 514,817</u>	<u>\$ 456,129</u>

Projects in progress as of December 31, 2019 relate primarily to renovation and expansion projects at the Hospital.

7. EMPLOYEE BENEFIT PLANS

Defined Contribution Plans—CHHS sponsors the Shared Retirement Savings Plans, defined contribution plans that include a discretionary employer match of one-half of employee contributions up to 8% of eligible employee compensation and a service-based contribution for eligible employees. During the years ended December 31, 2019 and 2018, the combined CHHS matching and service-based contribution was approximately \$18,889 and \$18,103, respectively, which is included in employee benefits expense on the consolidated statements of operations and changes in net assets.

Pension Plans—CHHS maintains a multiple-employer noncontributory, defined-benefit pension plan (the “CHHS pension plan”). The CHHS pension plan includes only certain employees of CHHS, and substantially all plan participants were employees of the Hospital. The Hospital makes all employer contributions, records the accrued pension liability and pension-related changes other than net periodic pension cost, and allocates the annual net periodic pension cost to the participating CHHS affiliates. The CHHS board of directors approved the curtailment of the CHHS pension plan effective December 31, 2009.

CSSW sponsors a defined-benefit pension plan (the “CSSW pension plan”) that covered substantially all CSSW employees employed prior to its curtailment. The CSSW pension plan calls for benefits to be paid to eligible employees at retirement, based primarily upon each eligible employee’s years of service with CSSW and compensation rate near retirement. The CSSW board of directors approved the curtailment of the CSSW pension plan effective December 31, 2004.

In July 2019, the CHHS/CHW Board of Directors approved a resolution to terminate the frozen CHHS and CSSW pension plans. CHHS management began the process which will include offering an option of a lump sum payment or annuity issued by a third party to any affected plan participant. It is expected that all benefits under the plan will be settled late in 2020. In this process investments have been restructured to best match the liabilities that will require satisfaction in this process. Certain pension assumptions have been updated to reflect the liquidation basis of accounting, which requires that CHHS measure its pension assets and liabilities to reflect the estimated amount it expects to collect in disposing of its pension assets and satisfying its pension liabilities in carrying out its plan for funding the liquidation. Significant assumption changes include updating the discount rate method to reflect short-term market rates and setting the expected return on assets equal to interest cost to reflect an asset allocation of 100% fixed income. CHHS also had to make significant assumptions about the number of participants that would select the lump sum payment option versus the annuity payout option. CHHS used historical actuary experience along with its experience with terminated vested participants in 2015 when selecting an estimated lump sum take rate as part of its assumption.

CHHS' policy is to fund the amounts necessary to meet the requirements of Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, for each of the pension plans.

Information regarding the benefit obligations and assets of the pension plans as of and for the years ended December 31, 2019 and 2018, is as follows:

	CHHS		CSSW	
	2019	2018	2019	2018
Change in benefit obligation:				
Benefit obligation—beginning of year	\$279,674	\$298,871	\$ 9,957	\$10,717
Service cost	-	-	37	37
Interest cost	12,298	11,528	434	412
Actuarial loss (gain)	67,183	(22,486)	1,416	(594)
Expenses	-	-	(27)	(32)
Benefit payments	<u>(9,186)</u>	<u>(8,239)</u>	<u>(605)</u>	<u>(583)</u>
Benefit obligation—end of year	<u>349,969</u>	<u>279,674</u>	<u>11,212</u>	<u>9,957</u>
Reconciliation of fair value of plan assets:				
Fair value of plan assets—beginning of year	244,909	267,816	7,435	8,358
Actual return on plan assets	54,343	(17,268)	1,057	(329)
Employer contributions	26,600	2,600	177	21
Benefit payments	(9,186)	(8,239)	(605)	(583)
Expenses	<u>-</u>	<u>-</u>	<u>(27)</u>	<u>(32)</u>
Fair value of plan assets—end of year	<u>316,666</u>	<u>244,909</u>	<u>8,037</u>	<u>7,435</u>
Unfunded status—end of year	<u>\$ 33,303</u>	<u>\$ 34,765</u>	<u>\$ 3,175</u>	<u>\$ 2,522</u>
Change in net amount recognized:				
Accrued pension—prior year	34,765	31,055	2,522	2,359
Net periodic pension cost	1,055	2,196	165	65
Employer contributions	(26,600)	(2,600)	(177)	(21)
Pension-related changes other than net periodic pension cost	<u>24,083</u>	<u>4,114</u>	<u>665</u>	<u>119</u>
Accrued pension—current year	<u>\$ 33,303</u>	<u>\$ 34,765</u>	<u>\$ 3,175</u>	<u>\$ 2,522</u>
Discount rate—January 1	4.48 %	3.92 %	4.48 %	3.92 %
Discount rate—December 31	3.25	4.48	3.25	4.48
Expected return on plan assets	5.25	5.50	6.75	6.75

As a result of the curtailment of both pension plans, the projected benefit obligation equals the accumulated benefit obligation.

Total expense for the CHHS and CSSW pension plans for the years ended December 31, 2019 and 2018 was \$1,220 and \$2,261, respectively. The expense is included in employee benefits in the accompanying consolidated statements of operations and changes in net assets.

In 2018, to develop the expected long-term rate of return on asset assumptions, CHHS and CSSW considered the historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the respective pension portfolios. Pension investments are managed in accordance with each pension plan's statement of investment objectives and policy guidelines, as established and maintained by the Investment Subcommittee. The Investment Subcommittee selects investment managers based on the investment objectives and regularly evaluates each manager's performance based on industry benchmarks. The investment policy guidelines establish

asset allocation, quality targets, and performance expectations, as well as regular reporting requirements. The target asset allocation for the CHHS pension plan in 2018 was 25% equity and 75% fixed-income securities. The target allocation for the CSSW pension plan in 2018 was 50% equity securities and 50% fixed-income securities. In 2019, both plans asset allocation was 100% fixed-income securities.

Within each plan, each class is diversified with multiple managers with differing styles of management. The fair value of pension plan assets measured using quoted prices in active markets for identical assets (Level 1 of the fair value hierarchy) and significant other observable inputs (Level 2 of the fair value hierarchy), using techniques consistent with those listed in Note 13, as of December 31, 2019 and 2018, are as follows:

	Total		Fair Value Measurements Using			
			(Level 1)		(Level 2)	
	2019	2018	2019	2018	2019	2018
CHHS pension plan assets:						
Money market accounts	\$ 14,316	\$ 5,528	\$14,316	\$ 5,528	\$ -	\$ -
Fixed-income securities:						
U.S. government	113,152	64,132	-	-	113,152	64,132
U.S. government agency mortgage-backed	3,799	3,254	-	-	3,799	3,254
Corporate	150,899	76,189	-	-	150,899	76,189
International	30,514	33,278	-	-	30,514	33,278
Municipal	1,479	1,369	-	-	1,479	1,369
Equity securities and funds:						
Large cap	-	30,576	-	30,576	-	-
Mid cap	-	8,499	-	8,499	-	-
Small cap	-	4,021	-	4,021	-	-
International	-	11,446	-	11,446	-	-
Emerging markets	-	3,435	-	3,435	-	-
Total	<u>\$314,159</u>	<u>\$241,727</u>	<u>\$14,316</u>	<u>\$63,505</u>	<u>\$299,843</u>	<u>\$178,222</u>
CSSW pension plan assets:						
Money market accounts	\$ 303	\$ 560	\$ 303	\$ 560	\$ -	\$ -
Equity securities and funds:						
Large cap	-	1,484	-	1,484	-	-
Mid cap	-	677	-	677	-	-
Small cap	-	337	-	337	-	-
International	-	687	-	687	-	-
Real Estate Investment Trust	-	383	-	383	-	-
Total	303	4,128	<u>\$ 303</u>	<u>\$ 4,128</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at net asset value - Bond Market Index Fund	<u>7,734</u>	<u>3,307</u>				
Total	<u>\$ 8,037</u>	<u>\$ 7,435</u>				

The components of net periodic pension cost that are included in employee benefits expense and pension-related changes other than net periodic pension cost, which are included as a change in unrestricted net assets in the consolidated statements of operations and changes in net assets for the years ended December 31, 2019 and 2018, are as follows:

	CHHS		CSSW	
	2019	2018	2019	2018
Components of net periodic pension cost:				
Service cost	\$ -	\$ -	\$ 37	\$ 37
Interest cost	12,298	11,528	434	412
Expected return on plan assets	(13,491)	(13,899)	(487)	(545)
Amortization of net loss	<u>2,248</u>	<u>4,567</u>	<u>181</u>	<u>161</u>
Net periodic pension cost	<u>\$ 1,055</u>	<u>\$ 2,196</u>	<u>\$ 165</u>	<u>\$ 65</u>
Pension-related changes other than net periodic pension cost:				
Accumulated loss	\$ 26,331	\$ 8,681	\$ 846	\$ 280
Amortization of net loss	<u>(2,248)</u>	<u>(4,567)</u>	<u>(181)</u>	<u>(161)</u>
Total recognized as changes in net assets without donor restrictions	<u>\$ 24,083</u>	<u>\$ 4,114</u>	<u>\$ 665</u>	<u>\$ 119</u>

A summary of the pension-related items recorded in unrestricted net assets and not yet recognized as a component of net periodic pension cost as of December 31, 2019 and 2018, is as follows:

	CHHS		CSSW	
	2019	2018	2019	2018
Amounts not yet reflected in net periodic pension cost—accumulated loss	<u>\$ (88,076)</u>	<u>\$ (63,993)</u>	<u>\$ 3,818</u>	<u>\$ (3,153)</u>

A summary of the expected amortization amounts to be included in net periodic pension cost for 2020 is as follows:

	CHHS	CSSW
Net actuarial loss	<u>\$ 6,384</u>	<u>\$ 243</u>

Due to the planned termination, the benefit payments are expected to be paid as follows:

December 31	CHHS	CSSW
2020	\$358,367	\$11,213
2021	-	-
2022	-	-
2023	-	-
2024	-	-
2025 and thereafter	-	-

The expected CHHS contribution in 2020 is \$33,303 and the expected CSSW contribution in 2020 is \$4,045.

8. LONG-TERM DEBT

As of December 31, 2019 and 2018, long-term debt is as follows:

	2019	2018
WHEFA Revenue Bonds ("Bonds"):		
Fixed-rate Series 2017—including unamortized premium and debt issuance costs of \$12,390 and \$13,086 in 2019 and 2018, respectively, principal payable in annual installments from 2023 through 2047 in amounts ranging from \$4,935 to \$19,615, interest payable semiannually at rates ranging from 3.25%–5.0%	\$ 327,790	\$ 328,486
Fixed-rate taxable bank loan, payable in monthly installments from 2020 through 2023 including principal amounts ranging from \$290 to \$625, and 2.38% interest	<u>23,420</u>	<u>30,110</u>
Total long-term debt	351,210	358,596
Less current installments	<u>(6,845)</u>	<u>(6,690)</u>
Long-term debt—net	<u>\$ 344,365</u>	<u>\$ 351,906</u>

The Hospital and Foundation are the only members of the Obligated Group for purposes of the Bonds. Payment of scheduled principal and interest is secured by a pledge of the Hospital's and Foundation's gross unrestricted receivables.

The Obligated Group must meet a debt service coverage ratio financial covenant required by the bond trustee. The Obligated Group was in compliance with its financial covenant at December 31, 2019.

Scheduled annual principal payments on the Bonds and taxable bank loan for the next five years and thereafter are as follows:

**Years Ending
December 31**

2020	\$ 6,845
2021	7,015
2022	7,185
2023	7,310
2024	7,580
Thereafter	<u>302,885</u>
Total	<u>\$ 338,820</u>

9. LEASES

CHHS and affiliates lease certain land, building space, and medical and other equipment under operating leases, and CHHS leases a portion of its facilities to other providers.

The main campus of the Hospital, located in Wauwatosa, Wisconsin, is on approximately twelve acres of land leased from Milwaukee County. The lease has a term of 100 years, which commenced March 1, 1985, with nominal rent expense for the first 50 years. The Hospital leased an additional 43 acres of land on Milwaukee County grounds in 2001. This 100-year lease with Milwaukee County provides the Hospital with adequate space and parking to meet local and regional needs for pediatric health care, education, and research. In November 2019, the Hospital purchased an additional building on the Milwaukee County grounds located adjacent to its existing buildings and assumed the remaining 55 years of the approximately seven acre land lease with Milwaukee County.

The components of lease expense for the year ended December 31, 2019 are as follows:

Operating lease expense	\$11,689
Sublease income	<u>(180)</u>
Total lease expense	11,509

Amounts reported in the consolidated statement of financial position as of December 31, 2019 were as follows:

Operating leases:

Operating lease ROU assets	\$ 72,114
Operating lease liabilities	80,671

Other information related to leases as of December 31, 2019 was as follows:

Supplemental cash flow information:

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

Operating cash flow from operating leases \$10,342

ROU assets obtained in exchange for lease obligations:

Operating leases 76,827

Weighted average remaining lease term:

Operating leases 7.8 years

Weighted average discount rate:

Operating leases 1.7%

Maturities of lease liabilities under noncancelable operating leases as of December 31, 2019 are as follows:

2020	\$	12,520
2021		12,504
2022		11,715
2023		10,589
2024		9,358
Thereafter		29,681
Total undiscounted lease payments	\$	<u>86,367</u>
Less imputed interest		<u>(5,696)</u>
Total lease liabilities	\$	<u>80,671</u>

For the year ended December 31, 2018, rent expense was \$18,389 and rental income was \$5,876, and aggregate commitments under operating leases that have initial or remaining lease terms in excess of one year, less rental income, are as follows:

Years Ending December 31	Operating Leases
2019	\$ 13,758
2020	13,724
2021	13,079
2022	11,687
2023	8,913
Thereafter	<u>82,076</u>
Total commitments under leases	143,237
Less rental income from noncancelable leases	<u>(14,680)</u>
Net commitments under operating leases	<u>\$128,557</u>

10. REVENUE AND RECEIVABLES

The amount, timing and uncertainty of revenue recognized is affected by payor and service line associated with this revenue. The composition of net patient service revenue by payor for the years ended December 31 is as follows:

	<u>2019</u>		<u>2018</u>	
Commercial and managed care	\$ 560,101	71 %	\$ 527,831	72 %
Medicaid and Medicaid HMO	211,734	27	189,191	26
Medicare and other government	7,280	1	7,059	1
Self pay and other	<u>6,505</u>	<u>1</u>	<u>4,293</u>	<u>1</u>
Total net patient service revenue	<u>\$ 785,620</u>	<u>100 %</u>	<u>\$ 728,374</u>	<u>100 %</u>

The self-pay revenue above includes only revenue from patients without insurance. The revenue related to amounts due from patients for co-insurance and deductibles is included with the related primary insurance coverage.

The composition of net patient service revenue by service line for the years ended December 31 is as follows:

	<u>2019</u>		<u>2018</u>	
Hospital inpatient	\$ 411,955	53 %	\$ 389,975	54 %
Hospital outpatient	286,139	36	264,816	36
Primary Care	66,401	9	58,300	8
Ambulatory Surgery Center	10,276	1	8,899	1
Other Health Care	<u>10,849</u>	<u>1</u>	<u>6,381</u>	<u>1</u>
Total net patient service revenue	<u>\$ 785,620</u>	<u>100 %</u>	<u>\$ 728,374</u>	<u>100 %</u>

The composition of patient accounts receivable by payor as of December 31 is as follows:

	<u>2019</u>		<u>2018</u>	
Commercial and managed care	\$68,642	71 %	\$63,865	71 %
Medicaid and Medicaid HMO	18,102	18	17,517	20
Medicare and other government	597	1	745	1
Self pay and other	<u>9,753</u>	<u>10</u>	<u>7,365</u>	<u>8</u>
Total patient accounts receivable	<u>\$97,094</u>	<u>100 %</u>	<u>\$89,492</u>	<u>100 %</u>

The self-pay patient accounts receivable above includes amounts due from patients for co-insurance, deductibles, installment payment plans and amounts due from patients without insurance.

In certain instances, CHHS will receive payment in advance of the services provided and would consider these amounts to represent contract liabilities. Contract liabilities as of December 31, 2019 and 2018 were not significant.

During 2009, the State of Wisconsin enacted legislation that created a tax assessment on hospital revenue. Funds collected under the tax assessment are used to increase federal funding for the Wisconsin Medicaid program. The Hospital recognized \$74,192 and \$65,991 of Medicaid and Medicaid HMO reimbursement for the years ended December 31, 2019 and 2018, respectively, which is included in net patient service revenue in the consolidated statements of operations and changes in net assets, as well as \$10,622 and \$10,751 of provider tax expense as a result of the law for the years ended December 31, 2019 and 2018, respectively.

Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

11. CHARITY AND UNREIMBURSED CARE

CHHS has a policy of providing free health care services to those unable to pay all or a portion of their charges and who meet certain eligibility criteria established in CHHS' charity care policy.

CHHS maintains records and monitors the level of charity and unreimbursed care it provides. The costs of charity and unreimbursed care, which are estimated using the ratio of total patient care cost to charges, for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Medicaid, Medicaid HMO, and other government Charity care	\$ 99,969 <u>948</u>	\$ 103,850 <u>845</u>
Total	<u>\$ 100,917</u>	<u>\$ 104,695</u>

12. FUNCTIONAL EXPENSES

CHHS exists for the purpose of providing an organized system for the delivery and management of pediatric health care and related services. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

Expenses by functional classification for the year ended December 31, 2019 consist of the following:

2019	Healthcare	Health Plans	Child Welfare Services	Research	Fundraising	Admin	Consolidated Total
Salaries	\$265,676	\$ 11,253	\$21,933	\$ 883	\$4,130	\$ 61,892	\$ 365,767
Employee benefits	73,701	3,555	8,908	221	937	15,443	102,765
Medical and pharmaceutical supplies	109,379	3	2	12	-	157	109,553
Non-medical supplies and other	18,674	1,132	2,784	73	1,141	6,930	30,734
Net medical claims expenses	-	259,700	-	-	-	-	259,700
Purchased services and professional fees	53,642	26,978	4,022	6,855	2,462	41,410	135,369
Operation and maintenance of facilities	31,404	612	2,300	1,884	31	5,952	42,183
Medical College of Wisconsin and resident fees	57,194	411	-	678	-	395	58,678
Provider tax	10,622	-	-	-	-	-	10,622
Depreciation	59,053	245	614	1,776	72	1,057	62,817
Interest	11,554	-	-	-	-	-	11,554
Total	<u>\$690,899</u>	<u>\$303,889</u>	<u>\$40,563</u>	<u>\$12,382</u>	<u>\$8,773</u>	<u>\$133,236</u>	<u>\$1,189,742</u>

Expenses by functional classification for the year ended December 31, 2018 consist of the following:

2018	Healthcare	Health Plans	Child Welfare Services				Admin	Consolidated Total
			Research	Fundraising				
Salaries	\$251,745	\$ 11,011	\$20,526	\$ 724	\$3,511	\$ 61,165	\$ 348,683	
Employee benefits	70,423	3,474	8,530	194	891	15,648	99,160	
Medical supplies	89,067	-	2	11	-	163	89,243	
Non-medical supplies and other	20,554	1,065	2,513	46	1,052	6,563	31,793	
Net medical claims expenses	-	335,916	-	-	-	-	335,916	
Purchased services and professional fees	50,620	37,155	6,355	7,207	2,182	30,122	133,641	
Operation and maintenance of facilities	30,031	605	129	1,822	33	6,812	39,433	
Medical College of Wisconsin and resident fees	53,677	588	-	789	-	464	55,518	
Provider tax	10,751	-	-	-	-	-	10,751	
Depreciation	59,414	192	544	1,763	68	1,196	63,178	
Interest	12,807	-	-	-	-	-	12,807	
Total	<u>\$649,090</u>	<u>\$390,007</u>	<u>\$38,600</u>	<u>\$12,557</u>	<u>\$7,737</u>	<u>\$122,133</u>	<u>\$1,220,123</u>	

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist primarily of cash and cash equivalents, investments, accounts receivable, pledges receivable, accounts payable, and long-term debt. Except for long-term debt, which is recorded at historic cost, the fair values of these instruments approximate their carrying amounts as of December 31, 2019 and 2018. The fair values of financial assets and liabilities are measured on a recurring basis using quoted prices in active markets for identical assets (Level 1 of the fair value hierarchy), significant other observable inputs (Level 2 of the fair value hierarchy), and significant unobservable inputs (Level 3 of the fair value hierarchy).

The fair values of financial assets that are measured on a recurring basis as of December 31, 2019 and 2018, are as follows:

	Fair Value Measurements Using							
	Total		(Level 1)		(Level 2)		(Level 3)	
	2019	2018	2019	2018	2019	2018	2019	2018
Assets—Investments at fair value:								
Money market funds	15,620	\$ 28,369	\$ 15,620	\$ 28,369	\$ -	\$ -	\$ -	\$ -
Fixed-income securities:								
U.S. government	218,318	243,782	-	-	218,318	243,782	-	-
U.S. government agency mortgage-backed	160,423	148,499	-	-	160,256	148,499	167	-
Corporate	147,686	143,587	-	-	147,571	143,587	115	-
International	82,479	75,863	-	-	82,479	75,863	-	-
Municipal	3,020	3,016	-	-	3,020	3,016	-	-
Pooled mutual funds	73,653	70,702	73,653	70,702	-	-	-	-
Blended Mutual Fund	58,307	40,268	58,307	40,268	-	-	-	-
Equity securities and funds:								
Large cap	390,762	301,409	390,762	301,409	-	-	-	-
Mid cap	63,913	48,012	63,913	48,012	-	-	-	-
Small cap	30,649	24,413	30,649	24,413	-	-	-	-
International	90,901	71,901	90,901	71,901	-	-	-	-
Emerging markets	32,742	25,838	32,742	25,838	-	-	-	-
Total	<u>\$1,368,473</u>	<u>\$1,225,659</u>	<u>\$756,547</u>	<u>\$610,912</u>	<u>\$611,644</u>	<u>\$614,747</u>	<u>\$282</u>	<u>\$ -</u>
Investments measured at net asset value - Alternative Investments	30,416	11,894						
Total	<u>\$1,398,889</u>	<u>\$1,237,553</u>						

Transfers between Level 1 and Level 2 are recognized at the end of the reporting period. There were no transfers during 2019 and 2018.

Money Market and Mutual Funds—Valued at net asset value (NAV) of shares held at year-end. For funds that are publicly traded, quoted market prices are used. Mutual funds are classified based on the underlying assets of the fund.

Fixed-Income Securities—Valued based on a compilation of observable market information or broker quote in an inactive market.

Equity Securities—Valued at the closing price reported on the active markets on which the individual securities are traded. Certain equities are valued at the bid price.

Alternative Investments – Valued based on the net asset value (NAV) per share. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. The following table sets forth a summary of CHHS’ investments whose values were estimated using a reported NAV at December 31, 2019.

Investments Measured at Net Asset Value—Certain investments that are measured using the NAV per share practical expedient have not been classified in the fair value hierarchy. The NAV amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amount presented in Note 3.

**Fair Value Estimated Using Net Asset Value per Share
December 31, 2019**

Investment	Fair Value*	Unfunded Commitment
US Private Equity	\$ 15,848	\$ 21,707
US Venture Capital	4,313	14,045
Opportunistic Strategies	<u>10,255</u>	<u>19,962</u>
	<u>\$ 30,416</u>	<u>\$ 55,714</u>

**Fair Value Estimated Using Net Asset Value per Share
December 31, 2018**

Investment	Fair Value*	Unfunded Commitment
US Private Equity	\$ 4,864	\$ 24,967
US Venture Capital	5,377	21,599
Opportunistic Strategies	<u>1,653</u>	<u>11,133</u>
	<u>\$ 11,894</u>	<u>\$ 57,699</u>

* The fair values of the investments have been estimated using the net asset value of the investment.

The Foundation invests in various long-life partnerships. As of December 31, 2019, the portfolio included 22 partnerships with total commitments of \$84,800. Of this total, \$29,086 has been funded as of December 31, 2019, with unfunded commitments of \$55,714 remaining. The partnerships have an expected life of between 8 and 13 years. The return of capital and additional income will occur over the life of the partnerships with no periodic redemption. The partnerships include buyout/growth equity, venture capital and opportunistic strategies. Of the total, 11 are focused within the information technology sector, 4 in healthcare and 7 in other market sectors such as industrial, retail, consumer products and business services.

14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

CHHS's financial assets available within one year of the balance sheet date for general expenditures such as operating expenses, scheduled principal payments on debt and construction costs not financed with debt are as follows:

	2019
Cash and cash equivalents	\$ 220,566
Patient accounts receivable	97,094
Other receivables	65,645
Investments	<u>1,123,287</u>
 Total financial assets	 1,506,592
 Receivables scheduled to be collected in more than one year	 (5,111)
 Contractual restrictions:	
Alternative investment unfunded commitments	(55,714)
Health plan minimum statutory capital	(28,760)
 Board designations—	
Operating/capital reserves	<u>(445,203)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 971,804</u>

CHHS has commitments to funding various alternative investments. As of December 31, 2019, those unfunded commitments totaled \$55,714. In addition, CCHP is required by the National Association of Insurance Commissioners (NAIC) to maintain minimum capital levels. As of December 31, 2019, the minimum capital amount required was \$28,760. CHHS also has board of directors' designated funds of \$445,203 that are available for general expenditure with board approval as of December 31, 2019. The availability of certain amounts within the board designated investments may change in accordance with Board policies at any time.

As part of CHHS' 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, CHHS invests cash in excess of daily requirements in short-term investments. CHHS has a goal to maintain financial assets, which consists of cash and short-term investments, on hand to meet normal operating expenses.

15. MEDICAL CLAIMS PAYABLE

CCHP's health insurances operations activity relating to medical claims payable for the years ended December 31, 2019 and 2018, is summarized as follows:

	2019	2018
Claims payable—January 1	\$ <u>53,499</u>	\$ <u>31,498</u>
Plus incurred claims related to:		
Current year	275,522	352,767
Prior years	<u>(2,404)</u>	<u>(1,584)</u>
Total incurred claims	<u>273,118</u>	<u>351,183</u>
Less paid claims related to:		
Current year	235,228	299,368
Prior years	<u>50,221</u>	<u>29,814</u>
Total paid claims	<u>285,449</u>	<u>329,182</u>
Claims payable—December 31	<u>\$ 41,168</u>	<u>\$ 53,499</u>

CCHP uses paid claims and completion factors based on historical payment patterns to estimate incurred claims. Changes in payment patterns and claims trends can result in changes to prior years' claims estimates. Changes in actuarial estimates of unpaid claims reported as "incurred claims related to prior year" in the schedule above reflect revisions in estimates of medical cost trends and changes in claims processing patterns.

16. CLAIMS DEVELOPMENT

The following is information about the development of paid and incurred health claims as of December 31, 2019 for CCHP's health insurances operations, which is presented net of reinsurance. The tables present claims development and cumulative claim payments by incurred year. The information about paid and incurred claims development prior to 2019 is presented as unaudited supplementary information:

Individual/ACA Comprehensive	Cumulative Incurred Claims, Net of Reinsurance			Total of IBNR Liabilities Plus Expected Development on Reported Claims
	For the Years Ended December 31, (Unaudited)			
Incurred Year	2017	2018	2019	
2017	\$ 18,263	\$ 17,167	\$ 17,188	\$ -
2018		142,562	144,090	692
2019			<u>77,118</u>	<u>13,137</u>
Cumulative incurred claims for the periods presented			<u>\$ 238,396</u>	<u>\$ 13,829</u>

Incurred Year	Cumulative Paid Claims, Net of Reinsurance		
	For the Years Ended December 31, (Unaudited)		
	2017	2018	2019
2017	\$ 15,126	\$ 17,151	\$ 17,187
2018		118,202	143,399
2019			<u>63,981</u>
Cumulative paid claims for the periods presented			224,567
All outstanding liabilities prior to 2017, net of reinsurance			<u>-</u>
Liability for commercial medical claims payable, net of reinsurance			<u>\$ 13,829</u>

Medicaid	Cumulative Incurred Claims, Net of Reinsurance			Total of IBNR Liabilities Plus Expected Development on Reported Claims
	For the Years Ended December 31, (Unaudited)			
	2017	2018	2019	
Incurred Year				
2017	\$ 219,369	\$ 215,886	\$ 215,997	\$ 4
2018		210,205	206,141	179
2019			198,404	27,156
Cumulative incurred claims for the periods presented			<u>\$ 620,542</u>	<u>\$ 27,339</u>

	Cumulative Paid Claims, Net of Reinsurance		
	For the Years Ended December 31, (Unaudited)		
	2017	2018	2019
Incurred Year			
2017	\$ 191,012	\$ 215,801	\$ 215,993
2018		181,166	205,962
2019			171,248
Cumulative paid claims for the periods presented			593,203
All outstanding liabilities prior to 2017, net of reinsurance			-
Liability for Medicaid supplemental medical claims payable, net of reinsurance			<u>\$ 27,339</u>

Reconciliation of the Disclosure of Paid and Incurred Claims Development to the Liability for Unpaid Claims – The reconciliation of the net paid and incurred claims development tables for CCHP’s health insurances operations to the liability for medical claims expense in the consolidated financial statement of financial position as of December 31, 2019 is as follows:

Net outstanding liabilities:	
Commercial	\$ 13,829
Medicaid	<u>27,339</u>
Total gross liability for medical claims payable	<u>\$ 41,168</u>

* * * * *

SUPPLEMENTARY CONSOLIDATING INFORMATION



Deloitte & Touche LLP
555 East Wells Street
Suite 1400
Milwaukee, WI 53202-3824
USA

Tel: +1 414 271 3000
Fax: +1 414 347 6200
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY CONSOLIDATING INFORMATION

To the Board of Directors of
Children's Hospital and Health System, Inc. and Affiliates:

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2019 supplementary consolidating information on pages 40-42 is presented for the purpose of additional analysis, and is not a required part of the consolidated financial statements. The Supplemental Statement of Operations and Changes in Net Assets – Foster Care Medical Home for the year ended December 31, 2019 on page 43 is presented for purposes of additional analysis and is not a required part of the 2019 consolidated financial statements but is supplementary information required for submission to the Wisconsin Department of Health Services to meet requirements set forth by the Centers for Medicare and Medicaid Services. This supplementary information is the responsibility of Children's Hospital and Health System, Inc. and Affiliates' management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2019 consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2019 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the 2019 consolidated financial statements as a whole.

Deloitte & Touche LLP

April 22, 2020

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF DECEMBER 31, 2019
(Dollars in thousands)**

	Obligated Group				Children's Hospital and Health System, Inc.	Children's Medical Group, Inc.	Children's Service Society of Wisconsin	Children's Community Health Plan, Inc.	Skywalk Pharmacy Center	Surgicenter of Greater Milwaukee, LLC	Eliminations	Consolidated
	Children's Hospital of Wisconsin, Inc.	Children's Hospital of Wisconsin Foundation, Inc.	Eliminations	Combined								
ASSETS												
CURRENT ASSETS:												
Cash and cash equivalents	\$ 79,188	\$ 16,109	\$ -	\$ 95,297	\$ 478	\$ 446	\$ 58	\$ 121,445	\$ 412	\$ 2,430	\$ -	\$ 220,566
Patient accounts receivable	95,173	-	-	95,173	2,045	4,522	192	-	-	1,542	(6,380)	97,094
Other receivables	8,532	130	-	8,662	1,516	456	5,164	49,260	929	-	(342)	65,645
Inventory of supplies	10,430	-	-	10,430	-	1,310	-	-	1,305	557	-	13,602
Prepaid expenses	10,764	428	-	11,192	9,999	596	361	389	10	13	-	22,560
Intercompany receivable	78,981	-	(31,334)	47,647	-	-	-	-	-	5,744	(53,391)	-
Total current assets	283,068	16,667	(31,334)	268,401	14,038	7,330	5,775	171,094	2,656	10,286	(60,113)	419,467
INVESTMENTS	352,574	734,810	-	1,087,384	15,878	-	-	23,028	-	12,875	(15,878)	1,123,287
ASSETS LIMITED AS TO USE:												
Limited under bond indentures for capital additions	28,447	-	-	28,447	-	-	-	-	-	-	-	28,447
Restricted by donors for specific purpose	-	78,994	-	78,994	-	-	-	-	-	-	-	78,994
Restricted by donors in perpetuity	-	203,767	-	203,767	-	-	-	-	-	-	-	203,767
Total assets limited as to use	28,447	282,761	-	311,208	-	-	-	-	-	-	-	311,208
PROPERTY AND EQUIPMENT—Net	462,045	791	-	462,836	27,334	12,235	3,026	655	28	8,703	-	514,817
LEASE ASSET	48,224	-	-	48,224	11,528	8,209	3,263	890	-	-	-	72,114
OTHER ASSETS	3,274	101	-	3,375	16,609	7,088	-	843	241	-	-	28,156
BENEFICIAL INTEREST IN NET ASSETS OF CHILDREN'S HOSPITAL OF WISCONSIN FOUNDATION, INC	796,583	-	(796,583)	-	2,468	-	2,564	-	-	-	(5,032)	-
TOTAL	\$1,974,215	\$1,035,130	\$(827,917)	\$2,181,428	\$87,855	\$34,862	\$14,628	\$196,510	\$2,925	\$31,864	\$(81,023)	\$2,469,049

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF DECEMBER 31, 2019
(Dollars in thousands)**

	Obligated Group				Children's Hospital and Health System, Inc.	Children's Medical Group, Inc.	Children's Service Society of Wisconsin	Children's Community Health Plan, Inc.	Skywalk Pharmacy Center	Surgicenter of Greater Milwaukee, LLC	Eliminations	Consolidated
	Children's Hospital of Wisconsin, Inc.	Children's Hospital of Wisconsin Foundation, Inc.	Eliminations	Combined								
LIABILITIES AND NET ASSETS												
CURRENT LIABILITIES:												
Accounts payable	\$ 37,674	\$ 528	\$ -	\$ 38,202	\$ 7,689	\$ 3,080	\$ 714	\$ 1,554	\$ 1,453	\$ 413	\$ -	\$ 53,105
Intercompany payable	-	31,334	(31,334)	-	41,196	7,342	4,156	697	-	-	(53,391)	-
Accrued expenses:												
Salaries and benefits	40,545	617	-	41,162	6,603	4,642	1,282	606	-	50	-	54,345
Personal leave benefits	16,529	333	-	16,862	5,870	1,308	1,354	490	-	258	-	26,142
Interest	4,946	-	-	4,946	-	-	-	-	-	-	-	4,946
Estimated third-party payor settlements	699	-	-	699	-	-	-	-	-	-	-	699
Current installments of long-term debt	6,845	-	-	6,845	-	-	-	-	-	-	-	6,845
Short term lease liability	5,930	-	-	5,930	2,547	1,525	1,099	152	-	-	-	11,253
Claims payable and other current liabilities	1,052	92	-	1,144	183	-	574	89,390	2	197	(6,722)	84,768
Total current liabilities	114,220	32,904	(31,334)	115,790	64,088	17,897	9,179	92,889	1,455	918	(60,113)	242,103
OTHER LONG-TERM LIABILITIES	44,421	746	-	45,167	8,101	10,129	88	-	-	-	-	63,485
ACCRUED PENSION	33,303	-	-	33,303	-	-	3,175	-	-	-	-	36,478
LONG-TERM LEASE LIABILITY	46,466	-	-	46,466	13,198	6,836	2,186	732	-	-	-	69,418
LONG-TERM DEBT—Less current installments	344,365	-	-	344,365	-	-	-	-	-	-	-	344,365
Total liabilities	582,775	33,650	(31,334)	585,091	85,387	34,862	14,628	93,621	1,455	918	(60,113)	755,849
NET ASSETS:												
Without donor restrictions	1,113,711	718,719	(518,854)	1,313,576	-	-	(2,564)	102,889	1,470	30,946	(15,878)	1,430,439
With donor restrictions												
Restricted by purpose	75,201	78,994	(75,201)	78,994	2,153	-	1,640	-	-	-	(3,793)	78,994
Restricted in perpetuity	202,528	203,767	(202,528)	203,767	315	-	924	-	-	-	(1,239)	203,767
Total net assets	277,729	282,761	(277,729)	282,761	2,468	-	2,564	-	-	-	(5,032)	282,761
Total net assets	1,391,440	1,001,480	(796,583)	1,596,337	2,468	-	-	102,889	1,470	30,946	(20,910)	1,713,200
TOTAL	\$1,974,215	\$ 1,035,130	\$ (827,917)	\$2,181,428	\$87,855	\$34,862	\$14,628	\$196,510	\$ 2,925	\$31,864	\$(81,023)	\$2,469,049

See notes to supplementary consolidating information.

(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019
(Dollars in thousands)**

	Obligated Group				Children's Hospital and Health System, Inc.	Children's Medical Group, Inc.	Children's Service Society of Wisconsin	Children's Community Health Plan, Inc.	Skywalk Pharmacy Center	Surgicenter of Greater Milwaukee, LLC	Eliminations	Consolidated
	Children's Hospital of Wisconsin, Inc.	Children's Hospital of Wisconsin Foundation, Inc.	Eliminations	Combined								
OPERATING REVENUE:												
Net patient service revenue	\$723,528	\$ -	\$ -	\$723,528	\$ 13,262	\$ 69,905	\$ 2,419	\$ -	\$ -	\$10,982	\$ (34,476)	\$ 785,620
Premium revenue and other capitated arrangements	-	-	-	-	2,764	-	-	362,633	-	-	-	365,397
Other	53,234	28,611	(6,586)	75,259	110,974	2,763	37,164	1,057	10,898	1,205	(117,988)	121,332
Total operating revenue	<u>776,762</u>	<u>28,611</u>	<u>(6,586)</u>	<u>798,787</u>	<u>127,000</u>	<u>72,668</u>	<u>39,583</u>	<u>363,690</u>	<u>10,898</u>	<u>12,187</u>	<u>(152,464)</u>	<u>1,272,349</u>
OPERATING EXPENSES:												
Salaries	208,759	4,130	-	212,889	75,392	44,889	21,933	8,063	-	2,601	-	365,767
Employee benefits	61,304	937	-	62,241	19,063	9,454	8,908	2,406	-	693	-	102,765
Medical and pharmaceutical supplies	85,710	-	-	85,710	730	12,776	2	3	9,342	2,152	(1,162)	109,553
Non-medical supplies and other	16,282	18,944	(6,586)	28,640	7,906	1,268	2,790	1,092	166	243	(11,371)	30,734
Net medical claims expenses	-	-	-	-	(7)	-	-	294,540	-	-	(34,833)	259,700
Purchased services and professional fees	143,883	3,285	-	147,168	50,129	4,169	6,216	27,947	1,300	1,934	(103,494)	135,369
Operation and maintenance of facilities	24,728	31	-	24,759	8,604	6,673	2,300	404	68	979	(1,604)	42,183
Medical College of Wisconsin and resident fees	56,489	-	-	56,489	1,216	706	-	267	-	-	-	58,678
Provider tax	10,622	-	-	10,622	-	-	-	-	-	-	-	10,622
Depreciation	55,726	72	-	55,798	3,075	2,265	614	171	10	884	-	62,817
Interest	11,530	-	-	11,530	-	-	-	-	24	-	-	11,554
Total operating expenses	<u>675,033</u>	<u>27,399</u>	<u>(6,586)</u>	<u>695,846</u>	<u>166,108</u>	<u>82,200</u>	<u>42,763</u>	<u>334,893</u>	<u>10,910</u>	<u>9,486</u>	<u>(152,464)</u>	<u>1,189,742</u>
OPERATING INCOME (EXPENSE)	<u>101,729</u>	<u>1,212</u>	<u>-</u>	<u>102,941</u>	<u>(39,108)</u>	<u>(9,532)</u>	<u>(3,180)</u>	<u>28,797</u>	<u>(12)</u>	<u>2,701</u>	<u>-</u>	<u>82,607</u>
NONOPERATING INCOME (EXPENSES):												
Investment income	12,302	23,015	-	35,317	-	-	2	2,001	-	350	-	37,670
Change in net unrealized gains and losses on investments	10,631	114,580	-	125,211	-	-	-	181	-	766	-	126,158
Other	(1,232)	1	-	(1,231)	(145)	(30)	(48)	(2,454)	-	-	-	(3,908)
Net nonoperating income (expenses)	<u>21,701</u>	<u>137,596</u>	<u>-</u>	<u>159,297</u>	<u>(145)</u>	<u>(30)</u>	<u>(46)</u>	<u>(272)</u>	<u>-</u>	<u>1,116</u>	<u>-</u>	<u>159,920</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	123,430	138,808	-	262,238	(39,253)	(9,562)	(3,226)	28,525	(12)	3,817	-	242,527
Increase (decrease) in beneficial interest in net assets Without donor restrictions of Children's Hospital of Wisconsin Foundation, Inc.	114,640	-	(114,640)	-	-	-	-	-	-	-	-	-
Transfers (to) from affiliated organizations	(78,278)	26,000	-	(52,278)	39,106	9,527	3,645	-	1,482	-	(1,482)	-
Net assets released from restrictions—capital acquisitions	2,580	-	-	2,580	147	-	20	-	-	-	-	2,747
Pension-related changes other than net periodic pension cost	(24,083)	-	-	(24,083)	-	-	(665)	-	-	-	-	(24,748)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTION	<u>\$138,289</u>	<u>\$ 164,808</u>	<u>\$ (114,640)</u>	<u>\$188,457</u>	<u>\$ -</u>	<u>\$ (35)</u>	<u>\$ (226)</u>	<u>\$ 28,525</u>	<u>\$ 1,470</u>	<u>\$ 3,817</u>	<u>\$ (1,482)</u>	<u>\$ 220,526</u>

See notes to supplementary consolidating information.

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS - FOSTER CARE MEDICAL HOME AS OF DECEMBER 31, 2019 (Dollars in thousands)

	Foster Care Medical Home Contract	Other Medicaid	Other Non-Medicaid	Consolidated Total
REVENUE:				
Premium revenue	\$ -	\$ 237,460	\$ 108,454	\$ 345,914
Other capitated arrangements	19,483	-	-	19,483
Other operating revenue	-	9	906,943	906,952
Total operating revenue	<u>19,483</u>	<u>237,469</u>	<u>1,015,397</u>	<u>1,272,349</u>
EXPENSES:				
Medical expenses	13,025	197,256	49,419	259,700
Claims adjustment expense	599	21,239	4,350	26,188
Other operating expenses	<u>5,394</u>	<u>6,660</u>	<u>891,800</u>	<u>903,854</u>
Total operating expenses	<u>19,018</u>	<u>225,155</u>	<u>945,569</u>	<u>1,189,742</u>
OPERATING INCOME	<u>\$ 465</u>	<u>\$ 12,314</u>	<u>\$ 69,828</u>	<u>82,607</u>
NONOPERATING INCOME (EXPENSE):				
Investment income				37,670
Change in net unrealized gains and losses on investments				126,158
Other				<u>(3,908)</u>
Net nonoperating income				<u>159,920</u>
EXCESS OF REVENUE OVER EXPENSES				242,527
OTHER CHANGES IN UNRESTRICTED NET ASSETS				<u>(22,001)</u>
INCREASE IN UNRESTRICTED NET ASSETS				<u>\$ 220,526</u>

**NOTE TO SUPPLEMENTARY CONSOLIDATING INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019
(Dollars in thousands)**

OBLIGATED GROUP AND BASIS OF REPORTING

Obligated Group—Children’s Hospital of Wisconsin, Inc., and Children’s Hospital of Wisconsin Foundation, Inc., are the only members of the obligated group (the “Obligated Group”) for purposes of the issuance of bonds through the Wisconsin Health and Educational Facilities Authority.

Basis of Reporting—In accordance with financial statement presentation under the bond agreements, the consolidating statement of financial position information and consolidating statement of operations and changes in net assets without donor restrictions information as of and for the year ended December 31, 2019, exclude the effects of consolidating subsidiaries controlled by members of the Obligated Group and the effects of recording the beneficial interest in the net assets held by certain affiliated entities on behalf of members of the Obligated Group.

Parent-Only Financial Statements—The primary financial statements of Children’s Hospital and Health System, Inc., are the consolidated financial statements. The amounts reflected in the supplementary consolidating information for Children’s Hospital and Health System, Inc., are the financial position and operations of only the parent corporation and do not reflect the parent’s interest in controlled entities.

* * * * *