



**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-34
Exhibit 1 – Consolidating Balance Sheet	35-36
Exhibit 2 – Consolidating Statement of Operations	37
Exhibit 3 – Consolidating Statement of Changes in Net Assets	38



KPMG LLP  
Suite 300  
1212 N. 96th Street  
Omaha, NE 68114-2274

Suite 1120  
1248 O Street  
Lincoln, NE 68508-1493

## Independent Auditors' Report

The Board of Directors  
Children's Hospital & Medical Center and Affiliates  
Omaha, Nebraska:

We have audited the accompanying consolidated financial statements of Children's Hospital & Medical Center and its affiliates (the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *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 U.S. generally accepted accounting principles; 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 auditors' 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 entity'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 entity'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 & Medical Center and its affiliates as of December 31, 2019 and 2018, and the results of their operations, changes in net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in Note 2 (r) to the consolidated financial statements, in 2019, the Company adopted new accounting guidance for Accounting Standards Update (ASU) No. 2016-02 *Leases (Topic 842)*, and ASU No. 2016-18, *Restricted Cash*. Our opinion is not modified with respect to these matters.

*Other Matters*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in exhibits 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

Omaha, Nebraska  
April 27, 2020

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets:		
Cash and cash equivalents	\$ 43,060	67,804
Patient accounts receivable	85,712	69,690
Current portion of pledges receivable	2,824	6,486
Other receivables	10,732	6,853
Prepaid expenses and other assets	16,606	16,567
Estimated third-party payor settlements	15,910	10,295
Total current assets	174,844	177,695
Pledges receivable, net of current portion	6,686	9,051
Operating lease right-of-use asset, net	15,151	—
Finance lease right-of-use asset, net	8,953	—
Construction funds	—	57,303
Assets limited to use	73,879	84,480
Long-term investments	431,972	377,855
Property and equipment, net	415,063	288,891
Other assets	6,969	6,520
Total assets	\$ 1,133,517	1,001,795
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 5,000	5,039
Current portion of operating lease obligation	2,632	—
Current portion of finance lease obligation	851	—
Trade accounts payable	21,487	22,988
Construction payables	21,075	12,594
Affiliate payables	1,787	1,481
Accrued salaries	40,195	28,969
Other accrued expenses	3,127	12,379
Total current liabilities	96,154	83,450
Long-term debt, net of current portion	170,837	176,017
Operating lease obligation, net of current portion	12,669	—
Finance lease obligation, net of current portion	8,245	—
Other liabilities	8,322	7,123
Total liabilities	296,227	266,590
Net assets:		
Without donor restrictions	779,162	680,746
Noncontrolling interest	2,450	3,013
Total net assets without donor restrictions	781,612	683,759
With donor restrictions	55,678	51,446
Total net assets	837,290	735,205
Total liabilities and net assets	\$ 1,133,517	1,001,795

See accompanying notes to consolidated financial statements.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidated Statements of Operations

Years ended December 31, 2019 and 2018

(Dollars in thousands)

	<b>2019</b>	<b>2018</b>
Unrestricted revenue, gains, and other support:		
Patient service revenue	\$ 486,198	460,586
Contributions for use in operations	3,108	3,898
Other revenue	14,866	13,572
Total unrestricted revenue, gains, and other support	504,172	478,056
Operating expenses:		
Salaries, wages, and agency staffing	214,689	198,145
Employee benefits	51,669	47,159
Supplies and pharmaceuticals	64,025	59,713
Outside services and professional fees	46,635	44,195
Other operating expenses	29,728	23,353
Depreciation and amortization	21,160	21,375
Affiliation support	21,081	22,037
Occupancy	9,704	10,365
Interest	3,044	3,076
Total operating expenses	461,735	429,418
Operating income	42,437	48,638
Other income (expense):		
Net investment (loss) income	55,044	(9,119)
Change in interest rate swap valuation	(659)	903
Total other income (loss) net	54,385	(8,216)
Excess of revenue, gains, and other support over expenses	96,822	40,422
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for investment in property and equipment	1,031	870
Increase in net assets without donor restrictions	\$ 97,853	41,292

See accompanying notes to consolidated financial statements.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2019 and 2018

(Dollars in thousands)

	<b>2019</b>	<b>2018</b>
Unrestricted net assets without donor restrictions:		
Excess of revenue, gains, and other support over expenses	\$ 96,822	40,422
Net assets released from restrictions for investment in property and equipment	1,031	870
Increase in unrestricted net assets without donor restrictions	97,853	41,292
Changes in net assets with donor restrictions		
Contributions restricted by donor	5,748	8,438
Investment income	477	220
Change in value of split-interest agreements	(169)	(368)
Net assets released from restrictions for investment in property and equipment	(1,031)	(683)
Net assets released from restrictions for use in operations	(793)	—
Increase in net assets with donor restrictions	4,232	7,607
Total change in net assets	102,085	48,899
Net assets, beginning of year	735,205	686,306
Net assets, end of year	\$ 837,290	735,205

See accompanying notes to consolidated financial statements.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 102,085	48,899
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in interest rate swap valuation	659	(903)
Depreciation and amortization	21,160	21,375
Loss on sale of property and equipment	10	—
Realized and unrealized (gain) loss on investments, net	(44,963)	23,115
Change in value of split-interest agreements	169	368
Restricted contributions and investment income, net	(6,225)	(8,658)
Amortization of debt issuance costs	44	44
Amortization of debt (premiums) and discounts, net	(117)	(107)
Changes in operating assets and liabilities:		
Patient accounts receivable	(16,022)	1,254
Other receivables	(3,879)	938
Prepaid expenses and other assets	(39)	(726)
Estimated third-party payor settlements	(5,615)	(108)
Right of use assets and liabilities	(788)	—
Other assets	(618)	419
Trade accounts payable	(1,501)	4,151
Affiliate payables	306	95
Accrued salaries	11,226	3,492
Other accrued expenses	(9,252)	383
Other liabilities	540	(498)
Net cash provided by operating activities	47,180	93,533
Cash flows from investing activities:		
Purchase of property and equipment	(137,740)	(71,422)
Proceeds from sale of property and equipment	41	—
Proceeds from sale of construction funds, net	57,303	33,766
Proceeds from sale of long-term investments and asset limited to use	197,972	133,080
Purchases of long-term investments and assets limited to use	(209,497)	(187,131)
Net cash used in investing activities	(91,921)	(91,707)
Net cash used in investing activities:		
Payments on long-term debt and other obligations	(5,146)	(4,826)
Principal payments on finance lease obligations	(81)	(182)
Restricted contributions and investment income received	12,252	11,286
Net cash provided by financing activities	7,025	6,278
Net (decrease) increase in cash, cash equivalents, and restricted cash	(37,716)	8,104
Cash, cash equivalents, and restricted cash at beginning of year	81,734	73,630
Cash, cash equivalents, and restricted cash at end of year	\$ 44,018	81,734
Comprised of:		
Cash and cash equivalents	\$ 43,060	67,804
Restricted cash included in assets limited to use	958	13,930
	\$ 44,018	81,734
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,086	2,957
Noncash operating and investing activities:		
Purchases of property and equipment in accounts payable	\$ 8,481	12,594

See accompanying notes to consolidated financial statements.

## CHILDREN'S HOSPITAL & MEDICAL CENTER AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

### (1) Organization and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Children's Hospital & Medical Center (the Hospital) and its affiliates (collectively, the Company). The affiliates are Children's Physicians and Children's Hospital & Medical Center Foundation (the Foundation), both not-for-profit organizations, and Children's Health Network, a not-for-profit taxable corporation. Significant transactions between entities have been eliminated in consolidation.

The mission of the Hospital is to improve the life of every child through dedication to exceptional clinical care, research, education, and advocacy. The Hospital operates a 145-bed pediatric hospital, which includes seven surgical suites, two hybrid heart catheterization labs, an outpatient surgery center, a heart transplant program, and a fetal care center that focuses on the coordination of care for babies diagnosed with complex congenital defects before birth. The Hospital was recognized by U.S. News and World Report in five specialties including cardiology and heart surgery, pulmonology, gastroenterology and GI surgery, orthopedics, diabetes, and endocrinology. Children's Specialty Pediatric Center offers more than 50 outpatient specialty clinics, providing diagnostics, treatment, and therapy. In addition, the Hospital provides outpatient behavioral health and a full array of pediatric home healthcare services to children and adolescents who have immediate or long-term healthcare needs. The Hospital is home to the region's only Level IV Neonatal Intensive Care Unit and the only dedicated pediatric emergency department with Level II Pediatric Trauma verification. The Hospital also provides specialty pediatric services in communities across three states.

Children's Physicians is a pediatric healthcare provider organization for Omaha and surrounding communities that owns and operates primary care pediatric clinics. The clinics also serve as resident training sites for pediatric residents. Children's Physicians has two voting members – Children's Hospital & Medical Center, a Nebraska not-for-profit corporation (two-thirds or majority voting membership), and Creighton University, a Nebraska not-for-profit corporation (one-third or noncontrolling voting membership). As of December 31, 2019, Children's Physicians operates 15 clinical sites. Creighton University's accumulated noncontrolling interest is recognized in the consolidated balance sheets as part of net assets.

The Foundation's purpose is to manage and distribute funds solicited from the public to further the mission and purpose of the Hospital.

Children's Health Network is a messenger model physician hospital organization composed of more than 400 general pediatricians, family practitioners, and pediatric specialists, including Children's Hospital & Medical Center employed physicians and other providers committed to improving the health status of children.

In 2007, the Hospital entered into an Institutional Affiliation Agreement with the Board of Regents of the University of Nebraska acting through the University of Nebraska Medical Center (UNMC), which provides 50% ownership of Nebraska Pediatric Practice (NPP) for each party. Under the terms of this agreement, the Hospital is responsible for funding any annual operating deficits incurred as a result of NPP operations (note 16) and is accounted for using the equity method as reflected in affiliation support in the consolidated statements of operations. The agreement also provides for joint funding of other activities in support of pediatrics.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

**(2) Summary of Significant Accounting Policies**

**(a) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowances for contractual adjustments and other price concessions, investment valuation, and professional liability reserves and losses recoverable.

**(b) Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less that have not otherwise been classified as long-term assets due to a designation for long-term purposes.

**(c) Investments and Investment Income**

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Alternative investments are valued at net asset value as a practical expedient to estimated fair values. The estimated values as determined by the respective fund's general manager and investment managers may differ significantly from the values that would have been used had ready markets existed. Real estate held in investments is valued based on the contributed value at the time of donation.

The Company has designated its investment portfolio as trading. Accordingly, unrealized gains and losses on investments are reported within excess of revenue, gains, and other support over expenses. For purposes of the consolidated statements of cash flows, the Company presents the purchase and sale of securities as an investing activity.

Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenue, gains, and other support over expenses, unless the income or loss is restricted by donor.

**(d) Property and Equipment**

Property and equipment acquisitions are recorded at cost or, if donated, at fair value on the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method based on the following estimated useful lives:

Buildings and leasehold improvements	3–30 years
Equipment and furnishings	3–20 years

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are included in the excess of revenue, gains, and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**(e) Other Assets**

Other assets include interests in split-interest agreements and deferred compensation assets. The Hospital and Foundation have been named the beneficiaries of irrevocable charitable remainder trust agreements in which each will receive certain funds upon termination of the trusts. Contribution revenue is recognized in the period in which the gift is established or when the Hospital or Foundation receives notice of the gift's existence. The contribution and associated receivable are recorded by discounting the future gift amount to its net present value. Adjustments to reflect the amortization of the discount rate and changes in actuarial assumptions are recognized as a change in value of split-interest agreements.

The Foundation is also a beneficiary of perpetual trusts and annually receives the income on the trusts' assets as earned in perpetuity. Contribution revenue is recognized in the period in which the trusts are established or when the Foundation receives notice of the trust's existence. The contributions and associated assets are recorded by discounting the future gift amount to its net present value.

The Hospital offers a 457b retirement plan. The Hospital maintains investment balances, within other assets, equal to the Hospital's total liability under this deferred compensation retirement plan. The investment balances related to the 457b retirement plan were \$3,919 and \$3,299 as of December 31, 2019 and 2018, respectively. A corresponding liability for this 457b plan is recorded in other noncurrent liabilities.

**(f) Deferred Debt Issuance Costs**

Financing and legal costs incurred in connection with the issuance of long-term debt are amortized over the term of the related debt using the effective interest rate method. Unamortized costs are presented on the consolidated balance sheets as a direct deduction of debt liabilities.

**(g) Net Assets With Donor Restrictions**

Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose and net assets which have been restricted by donors to be maintained in perpetuity. The Company applies the provisions of the Nebraska Uniform Prudent Management of Institutional Funds Act in managing its endowment. The Company classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

**(h) Net Assets Without Donor Restrictions**

Net assets without donor restrictions represent assets accumulated through the Company's operations that are not restricted by outside donors. This includes assets with a board designation or assets whose use is contractually limited, such as proceeds of debt issues deposited with a trustee and limited to use in accordance with the requirements of the master agreement.

**(i) Patient Service Revenue**

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital and Children's Physicians (collectively, the Healthcare Providers) expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits and reviews. Generally, the Company bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Healthcare Providers. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected reimbursement. The Company believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the input needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient and outpatient acute care services. The Company measures the performance obligation from admission into the healthcare provider to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Healthcare Providers do not believe it is required to provide additional goods or services.

Performance obligations satisfied at a point in time include cafeteria sales and billing services. Because performance obligations relate to contracts with a duration of less than one year, the Healthcare Providers elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 606-10-50-14(a), *Revenue from Contracts with Customers*, and, therefore, is not 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. The unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The Healthcare Providers determine the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, and reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy, and/or implicit price concessions based on the historical collection experience of patient accounts. The Company determines the transaction prices associated with services provided to patients who have third-party payor coverage based on reimbursement terms per contractual agreements, discount policies, and historical experience. For uninsured patients who do not qualify for charity care, the Company determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet the Company's criteria for free "charity" care are provided without charge; such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future period as new information becomes available or as years are settled or are no longer subject to such audits, reviews, and investigations. During 2019, the Company recorded an increase to patient service revenue of \$2,458 relating to changes in estimates of third-party settlements.

The Healthcare Providers use a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analyzes, the Company believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

**(j) Other Revenue**

Other revenue primarily includes cafeteria sales, management services income, and unrestricted contribution revenue. Revenue is generally recognized at point of service for these transactions.

**(k) Financial Assistance**

In support of the mission of the Company, the Healthcare Providers provide care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than their established rates. Because the Healthcare Providers do not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue. The amount of cost for services and supplies furnished under the Company's financial assistance policy aggregated at \$5,184 and \$4,836 in 2019 and 2018, respectively, utilizing the ratio of costs to charges.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

**(l) Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to the Company are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value when the conditions have been substantially met. Intentions to give are not recorded until they become unconditional promises to give. The gifts are reported as with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected in net assets without donor restrictions in the accompanying consolidated financial statements.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

**(m) Fair Value of Financial Instruments**

In accordance with FASB ASC Topic 820, *Fair Value Measurement*, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

**(n) Derivative Instruments and Hedging Activities**

The Company accounts for derivatives and hedging by recognizing all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values. Changes in the fair value of derivatives are recognized in other income.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data.

**(o) Income Taxes**

All affiliated entities, with the exception of Children's Health Network, have been recognized as not-for-profit corporations by the Internal Revenue Service as described in Section 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. Children's Health Network is a not-for-profit taxable corporation that has net taxable operating losses and, therefore, has no tax liability. The United States is the major tax jurisdiction for the Company, and 2016 is the earliest tax year subject to examination.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2019 or 2018, the Company did not record any amounts related to uncertain tax positions or any accrued interest and penalties.

**(p) Excess of Revenue, Gains, and Other Support Over Expenses**

The consolidated statements of operations include excess revenue, gains and other support over expenses, which is an indicator of financial performance. Changes in unrestricted net assets, which are excluded from excess of revenue, gains, and other support over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for purposes of acquiring such assets).

Other activities that result in gains or losses peripheral to the Company's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings and changes in fair value of interest rate swaps.

**(q) Estimated Malpractice Costs**

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

**(r) Recently Issued Accounting Standards**

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Company is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Further, the lease requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight-line basis. On January 1, 2019, the Company adopted the standard and all related amendments and applied it to all leases using the optional transition method which requires the amended guidance to be applied at the date of adoption. The standard does not require the guidance to be applied to the earliest comparative period presented in the consolidated financial

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

statements. As such, comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The impact on the consolidated balance sheet for the adoption of the new lease standard was as follows:

	<u>December 31, 2018</u>	<u>Due to ASC 842</u>	<u>January 1, 2019</u>
Assets:			
Operating lease right-of-use assets	\$ —	17,566	17,566
Liabilities:			
Operating lease current liabilities	\$ —	2,707	2,707
Operating lease long-term liabilities	—	14,859	14,859

The Company's leases do not specify an implicit interest rate. Therefore, the incremental borrowing rate was used based on information available at commencement date to determine the present value of future payments.

*Practical Expedients*

Under the new lease standard, companies may elect various practical expedients upon adoption. The Company elected the package of practical expedients related to transition, which states that an entity need not reassess initial direct costs for existing leases, the lease classification for any expired or existing leases, or whether any expired or existing contracts contain leases.

The Company elected to utilize a portfolio approach for lease classification, which allows for an entity to group together leases with similar characteristics provided that its application does not create a material difference when compared to accounting for the leases at a contract level.

The Company also elected the practical expedient for lessees to include both the lease and nonlease components as a single component and account for them as a lease. Certain agreements provide for maintenance costs to be the responsibility of the Company as incurred or charged by the lessor. This maintenance cost is a nonlease component that the Company has elected to combine with the monthly rental payment and account for the total cost as operating lease expense.

A lessee may elect not to apply the recognition requirements in the new lease standard for short-term leases. Instead, the lease payments may be recognized into profit or loss on a straight-line basis over the lease term. The Company has elected to use this short-term lease exemption and, therefore, will not record a lease liability or right-of-use asset for leases with a term of one year or less. The Company incurred \$62 in 2019 relating to short-term lease expense.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides assistance in determining if a

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

transaction should be accounted for as a contribution or as an exchange, as well and providing guidance in determining whether a contribution is conditional. Companies should apply this guidance on a modified prospective basis, although a retrospective application is permitted. The Company adopted the standard on January 1, 2019. The adoption of this guidance did not have a material impact to the consolidated financial statements.

The Company adopted ASU No. 2016-18, *Restricted Cash*, effective December 31, 2019. ASU No. 2016-18 addresses classification and presentation of changes in restricted cash on the statement of cash flows and requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash. The adoption resulted in the Company reclassifying \$13,930 of cash flow investing activities in 2018 to reflect the cash activities consistent with the 2019 presentation.

**(3) Patient Service Revenue and Patient Accounts Receivable**

The Healthcare Providers have agreements with government and other third-party payors that provide for payments at amounts different from the provider's established rates. The following summarizes the payment arrangements with government payors:

Inpatient services rendered to Medicaid program beneficiaries are paid at the base rate plus outliers. Outpatient Medicaid services are reimbursed based on a percentage rate representing the discounted average ratio of cost to charges. The Hospital also receives a Disproportionate Share Payment annually from the State of Nebraska Department of Health and Human Services.

Physician clinic services are paid based on fee schedule amounts.

The Healthcare Providers have entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment under these agreements consists primarily of discounts from established charges.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The following table sets forth the Healthcare Providers' patient service revenue at its established rates for the years ended December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Patient service revenue:		
Hospital:		
Hospital billing:		
Inpatient services	\$ 227,439	208,421
Outpatient services	175,516	170,524
Professional billing	15,260	14,333
Home health	20,975	18,859
Children's Physicians	47,008	48,449
Total patient service revenue	\$ 486,198	460,586

Patient service revenue from the Medicaid program accounted for approximately 26% and 30% of the Healthcare Providers' patient service revenue for the years ended December 31, 2019 and 2018, respectively. Laws and regulations concerning government programs, including Medicaid, are complex and subject to varying interpretation. As a result of the investigations by government agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory actions, including fines, penalties, and potential exclusion from related programs. There can be no assurance that regulator authorities will not challenge the Company's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Company.

Patient service revenue, recognized in 2019 and 2018 from major payor sources is as follows:

	<b>2019</b>		<b>2018</b>	
Medicaid	\$ 125,925	25.9 %	\$ 137,346	29.8 %
Commercial insurance	350,549	72.1	321,904	69.9
Other government payors	8,682	1.8	138	—
Patient (self-pay)	1,042	0.2	1,198	0.3
Patient service revenue	\$ 486,198	100.0 %	\$ 460,586	100.0 %

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The Company grants credit without collateral to its patients, most of who are local residents of Nebraska and western Iowa and are insured under third-party payor agreements. The mix of patient receivables from patients and third-party payors at December 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Medicaid	44 %	42 %
Commercial insurance and other third-party payors	47	47
Patients	9	11
	100 %	100 %

**(4) Pledges Receivable**

The Company has received certain pledges to support operations and other designated purposes. Pledges receivable were discounted utilizing interest rates ranging from 1.43% to 3.09%. At December 31, 2019 and 2018, pledges receivable consist of the following:

	<b>2019</b>	<b>2018</b>
Changing Lives Together Capital Campaign	\$ 9,119	15,122
Specialty Pediatric Center	400	400
Behavioral Health PATCH Program	125	—
Behavioral Health Tele-Psychiatry Program	50	—
Rainbow House Redevelopment	—	10
Dr. C. C. & Mabel L. Criss Heart Center	—	300
Kellie's Korner Fund	—	480
Operations	272	25
	9,966	16,337
Less:		
Unamortized discount	345	630
Allowance for uncollectibles	111	170
Net pledges receivable	\$ 9,510	15,537

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

	<b>2019</b>	<b>2018</b>
Amounts due in:		
Less than one year	\$ 2,824	6,486
One to five years	7,142	9,851
	9,966	16,337
Less unamortized discounts and allowances	456	800
Net pledges receivable	\$ 9,510	15,537

**(5) Financial Assets and Liquidity Resources**

As of December 31, 2019 and 2018, the Company has a working capital balance of \$78,690 and \$93,434, respectively, and average day's cash on hand of 439 days and 444 days, respectively, based on normal expenditures.

The following reflects the Company's financial assets as of December 31, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	<b>2019</b>	<b>2018</b>
Financial assets:		
Cash and cash equivalents	\$ 43,060	67,804
Patient accounts receivable	85,712	69,690
Assets limited to use	73,879	84,480
Investments	431,972	377,855
Construction funds	—	57,303
Other assets	6,969	6,520
Total financial assets	641,592	663,652

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

	<b>2019</b>	<b>2018</b>
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions	\$ (16,303)	(49,716)
Board designations	(57,576)	(52,987)
Financial assets available to meet cash needs for general expenditures within one year	567,713	560,949
Liquidity resources:		
Bank lines of credit	10,000	10,000
Total financial assets and liquidity resources available within one year	\$ 577,713	570,949

The Company has certain board-designated and donor-restricted assets limited to use, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year. The Company has other assets limited to use for donor-restricted purposes and funds designated for capital purposes, which are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As of December 31, 2019 and 2018, the Company was in compliance with all financial-related bond covenants.

**(6) Investments**

The composition of investments, construction funds, and assets limited to use at December 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
At fair value:		
Cash and cash equivalents	\$ 54,990	43,332
Corporate and municipal bonds	58,489	241,237
Common and preferred stocks	34,299	30,907
Mutual funds	299,213	148,231
	446,991	463,707
At net asset value:		
Investment in partnerships	58,860	55,931
Total	\$ 505,851	519,638

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

All investment income and realized and unrealized gains and losses related to investment transactions are included in investment income in the consolidated statements of operations.

Investment income is comprised of the following for the years ended December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Dividend and interest income	\$ 10,081	13,996
Net realized (loss) gain	(164)	2,644
Net unrealized gain (loss)	45,127	(25,759)
Total investment income (loss)	\$ 55,044	(9,119)

For investments in partnerships, the Company used the net asset value reported by the underlying fund as a practical expedient to estimate the fair value of the investment. Below is a summary of investments accounted for at net asset value:

	<b>2019</b>	<b>2018</b>	<b>frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Absolute return (a)	\$ 38,151	39,077	Quarterly/Annually Life of investment	45–90 days
Private equity/venture capital funds (b)	7,271	8,171	Life of investment	Life of investment
Real assets (c)	2,300	1,187	Life of investment	Life of investment
Global equity (d)	11,138	7,496	Monthly/Quarterly/Annually	30–90 days
	\$ 58,860	55,931		

- (a) This category includes investments in funds that invest primarily in event-driven investments, which seek to exploit situations in which announced or anticipated events create inefficiencies in valuations of securities (hedging using multiple strategies such as merger arbitrage, restructuring, exchange offers, distressed debt, credit, options and other derivatives, and initial public offerings). At December 31, 2019, \$2,880 of this category is locked up for the life of the investment.
- (b) This category includes seven partnerships. Six partnerships invest primarily in private equities related to the oil and gas sectors predominately in North America. The seventh partnership in this category invests in growth-oriented equities across a broad variety of sectors. At December 31, 2019, there were unfunded commitments of \$1,264 related to this category. It is estimated that the underlying assets of the fund will be liquidated over the next 1 to 14 years.
- (c) This category includes investments in funds that invest in a geographically diverse portfolio of real estate investments, principally industrial, office, residential, and retail properties. The term of each

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

partnership is 10 years from the date of when substantially all capital commitments are invested. It is estimated that the underlying assets of the fund will be liquidated over the next 1 to 12 years.

- (d) This category invests in funds that primarily invest in U.S. and international common stocks. At December 31, 2019, \$2,591 of this category pursues a long-short strategy. Redemption dates range between January 31, 2020 and December 31, 2020.

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Company's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the Company were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value and the discount could be significant.

The Company has designated certain investment funds to be used for specified purposes as of December 31, 2019 and 2018. These board designations include the Pediatric Enrichment Fund with balances of \$23,220 and \$19,194 as of December 31, 2019 and 2018, respectively; the Child Health Research Institute with \$21,600 as of December 31, 2019 and 2018; and \$10,000 each year supporting the UNMC affiliation agreement. Also included are reserve funds held by trustee for the Series 2014, 2017 and 2017B Bonds of \$794 and \$790, respectively.

**(7) Property and Equipment**

Property and equipment as of December 31, 2019 and 2018 consisted of the following:

	<b>2019</b>	<b>2018</b>
Building and leasehold improvements	\$ 316,200	272,700
Construction in progress	164,671	84,234
Equipment and furnishings	137,415	124,319
Land	37,305	28,605
	655,591	509,858
Less accumulated depreciation	240,528	220,967
	\$ 415,063	288,891

Depreciation expense for the years ended December 31, 2019 and 2018 was approximately \$19,998 and \$21,375, respectively. The Company capitalized \$3,565 and \$2,658 of interest cost during the years ended December 31, 2019 and 2018, respectively.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

**(8) Other Assets**

Other assets consist of the following as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Interest in charitable remainder and perpetual trusts	\$ 3,050	3,221
Investments held for deferred compensation	3,919	3,299
	\$ 6,969	6,520

**(9) Long-Term Debt**

Long-term debt as of December 31, 2019 and 2018 consisted of the following:

	<b>2019</b>	<b>2018</b>
Health Facilities Revenue Refunding Bonds, Series 2008A, variable interest, 1.62% at December 31, 2019, principal maturing in varying annual amounts commencing August 15, 2019, final maturity August 15, 2032	\$ 33,425	34,870
Health Facilities Revenue Refunding Bonds, Series 2014, fixed interest, 3.01% at December 31, 2019, principal maturing in varying annual amounts commencing August 15, 2019, final maturity August 15, 2030	18,285	18,620
Health Facilities Revenue Refunding Bonds, Series 2017, fixed interest, 4.55% at December 31, 2019, principal maturing in varying annual amounts commencing November 15, 2027, final maturity November 15, 2047	95,530	95,530
Health Facilities Revenue Refunding Bonds, Series 2017B, fixed interest, 2.15% at December 31, 2019, principal maturing in varying annual amounts commencing August 15, 2019, final maturity August 15, 2030	20,030	22,695
Mortgage note payable, interest at 9.49%, principal and interest due quarterly through 2027, secured by the related property	4,616	5,003
Capital lease obligation, 4.5% interest at December 31, 2018, principal paid in varying amounts through 2020	—	314
	171,886	177,032
Net unamortized premium on 2017 bonds	4,767	4,884
Less debt issuance costs	816	860
Less current portion	5,000	5,039
Long-term debt, net of current portion	\$ 170,837	176,017

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The overall effective-interest rate on the Series 2008A, 2014, 2017, and 2017B bonds was 3.88% and 3.91% for 2019 and 2018, respectively. The Series 2014 bonds have a fixed rate of 3.01%. The Series 2017 bonds have fixed rates with a minimum rate of 3.25% and a maximum rate of 5.00%. The Series 2017B bonds have a fixed interest rate at 2.15%.

Aggregate future principal payments on long-term debt are as follows:

		<u>Long-term debt</u>
Year ending December 31:		
2020	\$	5,000
2021		5,182
2022		5,382
2023		5,593
2024		5,808
Thereafter		<u>144,921</u>
Total	\$	<u><u>171,886</u></u>

On August 12, 2008, \$34,870 of Health Facilities Revenue Refunding Bonds, Series 2008A were issued by the Hospital Authority No. 2 of Douglas County, Nebraska pursuant to the Master Trust Indenture and Loan Agreement between the Hospital and Foundation (Obligated Group) and First National Bank of Omaha, Nebraska (Master Trustee). The Series 2008 bonds are the joint and several obligations of the Hospital and Foundation.

On March 1, 2017, the Hospital issued a \$95,530 tax-exempt bond through Hospital Authority No. 2 of Douglas County, Nebraska pursuant to the Master Trust Indenture and Loan Agreement between the Obligated Group and Master Trustee. Series bonds were made up of a combination of serial and term bonds with a final maturity of November 15, 2047. The Series 2017 bonds were issued at various fixed interest rates. The Hospital deposited the bond proceeds to a construction fund invested in corporate and municipal bonds. The fund is presented as construction funds on the consolidated balance sheets. The bond proceeds and additional funds were exhausted in 2019 and have been expended to construct the Tower Project (note 10).

On November 28, 2017, the Hospital issued a \$26,885 tax-exempt bond Series 2017B through Hospital Authority No. 2 of Douglas County, Nebraska Health Facilities Revenue Refunding Bonds. The Series 2017B bonds were issued at a fixed interest rate of 2.15% and have a final maturity of August 15, 2030.

The Hospital has entered into an interest rate swap agreement with Piper Jaffray Financial Products Inc. and Morgan Stanley Capital Services, Inc., with original notional value of \$34,720. The Hospital has accounted for derivatives and hedging activities in accordance with ASC Topic 815, *Derivatives and*

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

*Hedging*, which requires that the derivatives be recorded at fair value in the consolidated financial statements, and the change in the derivative's fair value is recognized currently in earnings unless specific hedge accounting criteria are met. The Hospital has not met the requirements for hedge accounting, and accordingly, the change in the value of the swap is reflected in other income in the consolidated statements of operations.

The amount outstanding at December 31, 2019 and terms of the agreements are as follows:

<b>Series</b>	<b>Outstanding amount of swap</b>	<b>Interest rate</b>
2008A	\$ 25,270	3.655 %

The following items related to the interest rate swap are included in the consolidated financial statements:

	<b>2019</b>	<b>2018</b>
Statements of operations:		
Swap interest – operating expenses	\$ 557	633
Change in fair value of swap transaction	(659)	903
Balance sheets:		
Interest rate swap – other liabilities	\$ 4,119	3,460
Accrued interest payable – current liabilities	51	44

**(10) Commitments**

The Company is in the process of constructing the Tower Project with an estimated total cost of \$415,000 and expected completion date of October 2021. Total construction costs included in the accompanying consolidated balance sheets as of December 31, 2019 and 2018 are \$124,053 and \$67,392, respectively. The Tower Project is funded through the use of bond proceeds, existing investments and philanthropy.

**(11) Leases**

Certain equipment and property are being leased, with remaining terms ranging from less than one year to 24 years. Certain leases contain renewal options. The renewal options are included in the lease term only for those situations in which they are reasonably certain to be renewed.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

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

	<b>2019</b>
Lease cost:	
Finance lease cost:	
Amortization of right-of-use assets	\$ 1,162
Interest on lease liabilities	252
Operating lease cost	3,258
Short term lease cost	62
Variable lease cost	8
Total lease cost	\$ 4,742
	<b>2019</b>
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ 150
Operating cash flows from operating leases	(938)
Financing cash flows from finance leases	81
Right-of-use assets obtained in exchange for new finance lease liabilities	1,954
Weighted average remaining lease term – finance leases	13 years
Weighted average remaining lease term – operating leases	11 years
Weighted average discount rate – finance leases	2.7 %
Weighted average discount rate – operating leases	2.8 %

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Aggregate minimum lease payments under operating and finance leases as of December 31, 2019 are as follows:

	<u>Finance leases</u>	<u>Operating leases</u>
2020	\$ 1,088	3,066
2021	974	2,108
2022	1,000	1,551
2023	1,021	1,317
2024	1,042	1,380
Thereafter	<u>5,811</u>	<u>7,314</u>
Total	10,936	16,736
Less present value discount	<u>(1,840)</u>	<u>(1,435)</u>
Lease liabilities	<u>\$ 9,096</u>	<u>15,301</u>

Aggregate minimum lease payments under operating leases as of December 31, 2018 were as follows:

2020	\$ 4,484
2021	2,364
2022	857
2023	497
Thereafter	<u>1,528</u>
	<u>\$ 9,730</u>

**(12) Net Assets Without Donor Restrictions**

Net assets without donor restrictions are as follows December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 721,586	627,341
Board-designated Affiliation Agreement	10,000	10,000
Board-designated Child Health Research Institute	21,600	21,600
Board-designated Pediatric Enrichment Fund	23,220	19,194
Board-designated operating	2,756	2,611
Noncontrolling interest	<u>2,450</u>	<u>3,013</u>
Total net assets without donor restrictions	<u>\$ 781,612</u>	<u>683,759</u>

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

**(13) Net Assets With Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Capital projects	\$ 41,716	38,122
General operations	5,769	4,993
Fellowships	1,175	1,567
Redevelopment	—	99
	<u>          </u>	<u>          </u>
Total net assets with donor restrictions	\$ <u>48,660</u>	<u>44,781</u>

Donor restricted perpetual trusts and endowments subject to spending policy and appropriation are expendable for the following specified purposes:

	<u>2019</u>	<u>2018</u>
General operations	\$ 3,708	3,027
Rainbow House	1,023	1,023
Orthopedics	1,010	1,010
Cardiothoracic Surgery	759	660
Capital projects	518	945
	<u>          </u>	<u>          </u>
	\$ <u>7,018</u>	<u>6,665</u>

Realized and unrealized gains and losses on investment transactions related to restricted investments are included in net assets with donor restrictions and released from restrictions in accordance with the Foundation's spending policy and donor stipulation.

**(14) Professional Liability Insurance**

The Company carries general liability and professional liability insurance policies, each providing \$1,000 of coverage for injuries per claim and \$3,000 aggregate and deductibles of \$25 per claim and \$125 aggregate. The policies expire on August 1, 2020, and claims made prior to such date were insured. In addition, the Company carries an umbrella excess liability policy (hospital professional and physician professional) that also provides \$25,000 per claim and aggregate coverage. These policies provide coverage on a claims-made basis, covering incidents that occurred subsequent to the retroactive date stated in the policy and first reported to the insurance company while the coverage is in force. In the event the Company should elect not to purchase insurance from the present carrier and fails to purchase the appropriate extended reporting endorsement, any unreported claims that occurred during the policy year may not be recoverable from the carrier.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The Company has provided for claims, including estimates of the ultimate costs of both reported claims and claims incurred but not reported at year-end. Management is presently not aware of any unasserted general and professional liability claims that would have a material adverse impact on the accompanying consolidated financial statements.

**(15) Workers' Compensation Agreement**

The Company has established a self-insured workers' compensation program that provides coverage for workers' compensation claims for the Company. An aggregate retention policy is provided through a commercial insurance company, which provides coverage up to the state of Nebraska's statutory requirements and the employer's liability up to \$1,000. The responsibility for the initial \$450 on each claim resides with the Company, subject to an aggregate retention limit of \$5,756. The Company has provided for claim payments, including estimates of the ultimate costs for both reported claims and claims incurred but not reported at year-end.

**(16) Transactions with Affiliates**

As discussed in note 1, Creighton University has a noncontrolling interest in Children's Physicians. For financial reporting purposes, the assets, liabilities, and operations of Children's Physicians are consolidated in the accompanying consolidated financial statements. Creighton University's 33% interest in Children's Physicians is reported as a noncontrolling interest in net assets on the consolidated balance sheets, and the income or loss therefrom is included in other operating revenue in the consolidated statements of operations and changes in net assets. The noncontrolling interest related to excess of revenue over expenses was \$(563) and \$(446) for the years ended December 31, 2019 and 2018, respectively.

The following is a summary of transactions between Creighton University and Children's Physicians, as reflected in the accompanying consolidated financial statements at December 31:

	2019	2018
Consolidated balance sheets:		
Payable for operating, overhead, and physician labor costs	\$ 1,787	1,481
Consolidated statements of operations:		
Operating and overhead expenses	\$ 171	168
Physician labor costs	5,342	5,418

As described in note 1, the Hospital and the Board of Regents of the University of Nebraska, acting on behalf of UNMC, entered into a members' agreement on June 30, 2008, as the only members of NPP. Under the terms of this agreement, the Hospital is responsible for funding any annual operating deficit incurred as a result of NPP operations. The Company established board-designated funds to support the principles of this agreement. For the years ended December 31, 2019 and 2018, the board-designated funds include the Institutional Affiliation Agreement Fund of \$10,000 each year, the Child Health Research Institute in the amount of \$21,600 each year, the Pediatric Enrichment Fund in the amount of \$23,220 and \$19,193, and operating programs for \$958 and \$13,930, respectively.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The following is a summary of transactions among NPP, UNMC, and the Company related to market rates or costs incurred, as reflected in the accompanying consolidated financial statements:

	<b>2019</b>	<b>2018</b>
Consolidated balance sheets:		
Receivable for billing fees, clinical support, and occupancy	\$ 4,528	1,384
Prepaid tax levy reserve	6,240	5,796
Payable for operating loss shortfall, net	(6,479)	(4,441)
	\$ 4,289	2,739
Consolidated statements of operations:		
Support for billing fees, clinical support, and occupancy	\$ (37,781)	(31,674)
Practice support costs	58,862	53,711
	\$ 21,081	22,037

**(17) Defined-Contribution Plan**

The Company offers defined-contribution retirement plans covering substantially all employees. Contributions and the related retirement plan expense totaled \$11,487 and \$10,697 for the years ended December 31, 2019 and 2018, respectively. The contributions include a payroll match and a basic year-end contribution, as defined by the Plan.

**(18) Commitments and Contingencies**

**(a) Laws and Regulations**

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in sanctions, including expulsion from government healthcare programs, imposition of significant fines and penalties, and significant repayments for patient services previously billed. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Management believes that the Company is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made that are expected to have a material effect on the Company's consolidated financial statements, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

**(b) Line of Credit**

The Company has entered into an unsecured revolving line of credit in the amount of \$10,000. At December 31, 2019 or 2018, the Company had not borrowed on this line. The line of credit expires on August 1, 2020.

**(19) Functional Classification of Expenses**

The consolidated financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Company. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of specific identification. Other expenses, due to their nature, are allocated in a similar fashion.

Expenses by functional classification for the years ended December 31, 2019 and 2018 consist of the following:

	<b>2019</b>			
	<b>Healthcare services</b>	<b>Fundraising</b>	<b>General and administrative</b>	<b>Total</b>
Operating expenses:				
Salaries, wages, and agency staffing	\$ 179,005	1,337	34,347	214,689
Employee benefits	42,791	311	8,567	51,669
Supplies and pharmaceuticals	62,307	483	1,235	64,025
Outside services and professional fees	28,535	474	17,626	46,635
Other operating expenses	16,438	2,049	11,242	29,729
Depreciation and amortization	17,986	212	2,962	21,160
Affiliation support	21,081	—	—	21,081
Occupancy	8,248	97	1,359	9,704
Interest	3,024	9	10	3,043
Total	<u>\$ 379,415</u>	<u>4,972</u>	<u>77,348</u>	<u>461,735</u>

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

	<b>2018</b>			
	<b>Healthcare services</b>	<b>Fundraising</b>	<b>General and administrative</b>	<b>Total</b>
Operating expenses:				
Salaries, wages, and agency staffing	\$ 169,555	1,314	27,276	198,145
Employee benefits	38,643	304	8,212	47,159
Supplies and pharmaceuticals	59,106	7	600	59,713
Outside services and professional fees	30,288	382	13,525	44,195
Other operating expenses	16,090	1,016	6,247	23,353
Depreciation and amortization	18,459	8	2,908	21,375
Affiliation support	22,037	—	—	22,037
Occupancy	8,623	10	1,732	10,365
Interest	3,058	18	—	3,076
Total	\$ 365,859	3,059	60,500	429,418

**(20) Fair Value Measurements**

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives this highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. The following tables present assets and liabilities that are measured at fair value on a recurring basis (including

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

items that are required to be measured at fair value and items for which the fair value option has been elected) at December 31, 2019 and 2018:

<b>Fair value measurements at December 31, 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets:				
Money market funds	\$ 79,565	—	—	79,565
Repurchase agreements	—	—	—	—
Fixed-income securities	—	58,489	—	58,489
Domestic mutual funds	203,955	—	—	203,955
International mutual funds	95,258	—	—	95,258
Domestic – individual stocks	34,299	—	—	34,299
Deferred compensation assets:				
Money market funds	89	—	—	89
Domestic equity funds	2,723	—	—	2,723
International equity funds	289	—	—	289
Fixed-income funds	818	—	—	818
Investments measured at net asset value <sup>1</sup>	—	—	—	58,860
	\$ 416,996	58,489	—	534,345
Financial liabilities:				
Interest rate swap	\$ —	4,118	—	4,118
Deferred compensation	3,919	—	—	3,919
Total	\$ 3,919	4,118	—	8,037

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

<b>Fair value measurements at December 31, 2018</b>					
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets:	\$				
Money market funds		71,686	—	—	71,686
Repurchase agreements		520	—	—	520
Fixed-income securities		—	241,237	—	241,237
Domestic mutual funds		65,461	—	—	65,461
International mutual funds		82,770	—	—	82,770
Domestic – individual stocks		30,907	—	—	30,907
Deferred compensation assets:					
Money market funds		172	—	—	172
Domestic equity funds		2,209	—	—	2,209
International equity funds		208	—	—	208
Fixed-income funds		710	—	—	710
Investments measured at net asset value <sup>1</sup>		—	—	—	55,931
	\$	254,643	241,237	—	551,811
Financial liabilities:					
Interest rate swap	\$	—	3,459	—	3,459
Deferred compensation		3,299	—	—	3,299
Total	\$	3,299	3,459	—	6,758

<sup>1</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

**(21) Subsequent Events**

The Company has evaluated subsequent events from the consolidated balance sheet date through April 27, 2020, the date on which the consolidated financial statements were issued. There have been no material events or transactions noted during the period that would either impact the results reflected herein or the results going forward, except as disclosed below.

On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 as a “public health emergency of international concern,” and on March 13, 2020, the president of the United States declared a state of national emergency. As a result of the outbreak, there has been instability in the capital markets. The ultimate impact of the COVID-19 outbreak is highly uncertain. The Company’s business and investments values are likely to be impacted by COVID-19. Management does not yet know the full extent of potential impacts on the business. Through March 31, 2020, the Company experienced an unrealized loss on investments of approximately \$58.8 million.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Creighton University has indicated a desire to assign their membership interest in Children's Physicians to the Company. The parties are currently working through this process. The physicians who are employed by Creighton University and leased to Children's Physicians will become employed by the Company as of January 1, 2021. Creighton University will continue to appoint one representative to the Children's Physicians Board of Directors and the Company will continue to provide educational opportunities to Creighton University learners.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidating Balance Sheet

December 31, 2019

(Dollars in thousands)

<b>Assets</b>	<b>Children's Hospital</b>	<b>Children's Physicians</b>	<b>Children's Hospital Foundation</b>	<b>Children's Health Network</b>	<b>Eliminations</b>	<b>Consolidated</b>
Current assets:						
Cash and cash equivalents	\$ 28,738	4,892	9,430	—	—	43,060
Patient accounts receivable	82,899	2,813	—	—	—	85,712
Current portion of pledges receivable	—	—	2,824	—	—	2,824
Other receivables	19,531	2,262	1,133	—	(12,194)	10,732
Prepaid expenses and other assets	15,005	1,380	221	—	—	16,606
Estimated third-party payor settlements	15,910	—	—	—	—	15,910
Total current assets	162,083	11,347	13,608	—	(12,194)	174,844
Pledges receivable, net of current portion	—	—	6,686	—	—	6,686
Operating lease right-of-use asset, net	10,391	4,760	—	—	—	15,151
Finance lease right-of-use asset, net	8,043	910	—	—	—	8,953
Assets limited to use	45,614	—	28,265	—	—	73,879
Long-term investments	7,759	—	431,562	—	(7,349)	431,972
Property and equipment, net	408,824	6,213	26	—	—	415,063
Interest in Foundation	479,951	—	—	—	(479,951)	—
Other assets	6,143	—	826	—	—	6,969
Total assets	\$ 1,128,808	23,230	480,973	—	(499,494)	1,133,517

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidating Balance Sheet

December 31, 2019

(Dollars in thousands)

Liabilities and Net Assets	Children's Hospital	Children's Physicians	Children's Hospital Foundation	Children's Health Network	Eliminations	Consolidated
Current liabilities:						
Current portion of long-term debt	\$ 5,000	—	—	—	—	5,000
Current portion of operating lease obligation	2,167	465	—	—	—	2,632
Current portion of finance lease obligation	686	165	—	—	—	851
Trade accounts payable	20,598	796	93	—	—	21,487
Construction payables	21,075	—	—	—	—	21,075
Affiliate payables	4,149	9,266	566	—	(12,194)	1,787
Accrued salaries	40,134	61	—	—	—	40,195
Other accrued expenses	2,934	—	193	—	—	3,127
Total current liabilities	96,743	10,753	852	—	(12,194)	96,154
Long-term debt, net of current portion	170,837	—	—	—	—	170,837
Operating lease obligation, net of current portion	8,399	4,270	—	—	—	12,669
Finance lease obligation, net of current portion	7,387	858	—	—	—	8,245
Other liabilities	8,152	—	170	—	—	8,322
Total liabilities	291,518	15,881	1,022	—	(12,194)	296,227
Net assets:						
Without donor restrictions	779,162	7,349	426,411	—	(433,760)	779,162
Noncontrolling interest	2,450	—	—	—	—	2,450
Total net assets without donor restriction	781,612	7,349	426,411	—	(433,760)	781,612
With donor restrictions	55,678	—	53,540	—	(53,540)	55,678
Total net assets	837,290	7,349	479,951	—	(487,300)	837,290
Total liabilities and net assets	\$ 1,128,808	23,230	480,973	—	(499,494)	1,133,517

See accompanying independent auditors' report.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidating Statement of Operations

Year ended December 31, 2019

(Dollars in thousands)

	Children's Hospital	Children's Physicians	Children's Hospital Foundation	Children's Health Network	Eliminations	Consolidated
Unrestricted revenue, gains, and other support:						
Patient service revenue	\$ 439,190	47,008	—	—	—	486,198
Contributions for use in operations	223	—	2,885	—	—	3,108
Other revenue	17,025	2,956	—	5	(5,120)	14,866
Equity in income of Children's Physicians	(1,691)	—	—	—	1,691	—
Equity in income of Children's Health Network	(377)	—	—	—	377	—
Total unrestricted revenue, gains, and other support	<u>454,370</u>	<u>49,964</u>	<u>2,885</u>	<u>5</u>	<u>(3,052)</u>	<u>504,172</u>
Operating expenses:						
Salaries, wages, and agency staffing	183,103	29,933	1,337	316	—	214,689
Employee benefits	45,333	5,987	311	38	—	51,669
Supplies and pharmaceuticals	53,136	10,596	293	—	—	64,025
Outside services and professional fees	44,526	6,080	474	16	(4,461)	46,635
Other operating expenses	25,924	1,744	2,048	12	—	29,728
Depreciation and amortization	20,547	606	7	—	—	21,160
Affiliation support	26,210	(5,129)	—	—	—	21,081
Occupancy	8,543	1,818	2	—	(659)	9,704
Interest	3,011	24	9	—	—	3,044
Beneficial interest in affiliates	1,596	—	—	—	(1,596)	—
Total operating expenses	<u>411,929</u>	<u>51,659</u>	<u>4,481</u>	<u>382</u>	<u>(6,716)</u>	<u>461,735</u>
Operating income	<u>42,441</u>	<u>(1,695)</u>	<u>(1,596)</u>	<u>(377)</u>	<u>3,664</u>	<u>42,437</u>
Other income (expense):						
Net investment income	428	4	54,612	—	—	55,044
Change in fair value of swap transaction	(659)	—	—	—	—	(659)
Change in beneficial interest in net assets of affiliates	54,612	—	—	—	(54,612)	—
Total other income, net	<u>54,381</u>	<u>4</u>	<u>54,612</u>	<u>—</u>	<u>(54,612)</u>	<u>54,385</u>
Excess of revenue, gains, and other support over expenses	<u>96,822</u>	<u>(1,691)</u>	<u>53,016</u>	<u>(377)</u>	<u>(50,948)</u>	<u>96,822</u>
Other changes in net assets without donor restrictions:						
Net assets released from restrictions for investment in property and equipment	1,031	—	—	—	—	1,031
Net asset transfers (to) from affiliates	25,008	—	(25,385)	377	—	—
Change in beneficial interest in net assets of affiliates	(25,008)	—	—	—	25,008	—
Total other changes in unrestricted net assets	<u>1,031</u>	<u>—</u>	<u>(25,385)</u>	<u>377</u>	<u>25,008</u>	<u>1,031</u>
Increase in unrestricted net assets	<u>\$ 97,853</u>	<u>(1,691)</u>	<u>27,631</u>	<u>—</u>	<u>(25,940)</u>	<u>97,853</u>

See accompanying independent auditors' report.

**CHILDREN'S HOSPITAL & MEDICAL CENTER AND  
AFFILIATES**

Consolidating Statement of Changes in Net Assets

Year ended December 31, 2019

(Dollars in thousands)

	<u>Children's Hospital</u>	<u>Children's Physicians</u>	<u>Children's Hospital Foundation</u>	<u>Children's Health Network</u>	<u>Eliminations</u>	<u>Consolidated</u>
Changes in net assets without donor restrictions:						
Excess of revenue, gains, and other support over (under) expenses	\$ 96,822	(1,691)	53,016	(377)	(50,948)	96,822
Net assets released from restrictions for investment in property and equipment	1,031	—	—	—	—	1,031
Change in beneficial interest in net assets of affiliates	(25,008)	—	—	—	25,008	—
Net asset transfers	25,008	—	(25,385)	377	—	—
Increase in net assets without donor restrictions	<u>97,853</u>	<u>(1,691)</u>	<u>27,631</u>	<u>—</u>	<u>(25,940)</u>	<u>97,853</u>
Changes in net assets with donor restrictions:						
Contributions restricted by donor	—	—	5,748	—	—	5,748
Investment income	—	—	477	—	—	477
Change in beneficial interest in net assets of affiliates	4,528	—	1	—	(4,529)	—
Change in value of split-interest agreements	(296)	—	127	—	—	(169)
Net assets released from restrictions for investment in property and equipment	—	—	(1,031)	—	—	(1,031)
Net assets released from restrictions for use in operations	—	—	(793)	—	—	(793)
Increase in net assets with donor restrictions	<u>4,232</u>	<u>—</u>	<u>4,529</u>	<u>—</u>	<u>(4,529)</u>	<u>4,232</u>
Net assets, beginning of year	<u>735,205</u>	<u>9,040</u>	<u>447,791</u>	<u>—</u>	<u>(456,831)</u>	<u>735,205</u>
Net assets, end of year	\$ <u><u>837,290</u></u>	<u><u>7,349</u></u>	<u><u>479,951</u></u>	<u><u>—</u></u>	<u><u>(487,300)</u></u>	<u><u>837,290</u></u>

See accompanying independent auditors' report.