Children's National Medical Center and Subsidiaries

Consolidated Financial Statements and Supplementary Consolidating Information

June 30, 2024 and 2023

Page(s)

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Children's National Medical Center and its subsidiaries ("Children's National"), which comprise the consolidated balance sheets as of June 30, 2024 and 2023, and the related consolidated statements of operations, of changes in net assets, and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Children's National as of June 30, 2024 and 2023, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with US GAAS, we:

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

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

PricewaterhouseCoopers LLP

Washington, District of Columbia
September 26, 2024

Children’s National Medical Center and Subsidiaries
Consolidated Balance Sheets
June 30, 2024 and 2023

(in thousands)	2024	2023
Assets		
Current assets		
Cash and cash equivalents	$ 44,678	$ 89,335
Short term investments	22,418	40,813
Short term assets whose use is limited	2,185	2,147
Accounts receivable, net	348,933	311,668
Settlements due from third-party payors	22,520	13,379
Contributions receivable, net	41,210	40,118
Grant receivable	41,868	25,260
Inventories of supplies	21,864	16,030
Prepaid expenses and other	57,013	62,788
Total current assets	602,689	601,538
Noncurrent assets		
Property and equipment, net	877,791	886,864
Right of use assets, financing	103,945	114,176
Right of use assets, operating	76,991	81,210
Assets whose use is limited	51,459	53,858
Investments	1,206,738	1,048,662
Contributions receivable, net	20,379	31,336
Loan receivable	13,496	13,496
Interest in beneficial trusts	8,980	8,812
Other	60,017	48,794
Total noncurrent assets	2,419,796	2,287,208
Total assets	$ 3,022,485	$ 2,888,746

The accompanying notes are an integral part of these consolidated financial statements.

Children's National Medical Center and Subsidiaries
Consolidated Balance Sheets (continued)
June 30, 2024 and 2023

(in thousands)	2024	2023
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 98,777	$ 92,158
Accrued salaries and other expenses	166,207	166,581
Current portion of reserve for claims	41,839	45,238
Settlements due to third-party payors	12,929	7,231
Deferred revenue	24,097	26,139
Medical claims payable	8,204	16,362
Current portion of long-term debt	11,803	12,027
Current portion of financing lease liabilities	11,365	7,434
Current portion of operating lease liabilities	7,768	5,163
Total current liabilities	382,989	378,333
Noncurrent liabilities		
Long-term debt	697,812	715,144
Long-term financing lease liabilities	137,082	150,517
Long-term operating lease liabilities	77,240	83,682
Reserve for claims	89,629	78,403
Other long-term liabilities	74,922	64,278
Total noncurrent liabilities	1,076,685	1,092,024
Total liabilities	1,459,674	1,470,357
Net Assets		
Without donor restrictions - attributable to Children's National	1,094,098	963,109
Without donor restrictions - noncontrolling interests	26,645	26,898
Total net assets without donor restrictions	1,120,743	990,007
With donor restrictions	442,068	428,382
Total net assets	1,562,811	1,418,389
Total liabilities and net assets	$ 3,022,485	$ 2,888,746

The accompanying notes are an integral part of these consolidated financial statements.

Children’s National Medical Center and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2024 and 2023

(in thousands)	2024	2023
Operating revenue and other support		
Net patient service revenue	$ 1,469,766	$ 1,381,158
Capitation revenue	188,688	189,324
Grant revenue	146,414	119,895
Other operating revenue	134,500	88,696
Contributions	17,321	49,832
Net assets released from restrictions used for operations	57,946	45,381
Total operating revenue and other support	2,014,635	1,874,286
Expenses		
Salaries, wages, and benefits	1,161,636	1,086,099
Supplies and other	550,343	488,219
Medical claims expense	98,488	83,694
Depreciation and amortization	112,467	111,771
Provision for insurance	25,699	19,768
Interest and amortization	30,750	31,637
Development expense	27,423	27,295
Total expenses	2,006,806	1,848,483
Operating income	7,829	25,803
Non-operating revenues and expenses		
Investment return, net	120,880	75,565
Other non-operating loss, net	(138)	(605)
Total non-operating revenues and expenses	120,742	74,960
Excess of revenues over expenses	128,571	100,763
Contributions from noncontrolling interests	-	9,028
Distributions to noncontrolling interests	-	(863)
Released from restriction for property and equipment	2,165	2,668
Unrestricted contributions for property and equipment	-	510
Increase in net assets without donor restrictions	$ 130,736	$ 112,106

The accompanying notes are an integral part of these consolidated financial statements.

Children’s National Medical Center and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2024 and 2023

(in thousands)	2024	2023
Net assets without donor restrictions		
Excess of revenues over expenses	$ 128,571	$ 100,763
Contributions from noncontrolling interests	-	9,028
Distributions to noncontrolling interests	-	(863)
Released from restriction for property and equipment	2,165	2,668
Unrestricted contributions for property and equipment	-	510
Increase in net assets without donor restrictions	130,736	112,106
Net assets with donor restrictions		
Contributions	35,930	69,832
Investment return, net	37,943	27,373
Released from restrictions	(60,111)	(48,049)
Change in value of split interest agreements	168	(849)
Loss from uncollectible pledges	(244)	(4,689)
Increase in net assets with donor restrictions	13,686	43,618
Change in net assets	144,422	155,724
Net assets		
Beginning of year	1,418,389	1,262,665
End of year	$ 1,562,811	$ 1,418,389

The accompanying notes are an integral part of these consolidated financial statements.

Children's National Medical Center and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

(in thousands)	**2024**	**2023**
Cash flows from operating activities		
Change in net assets	$ 144,422	$ 155,724
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	112,467	111,771
Provision for uncollectible contributions	87	4,590
(Gain) loss on disposal of assets	(169)	395
Loss on abandoned capital projects	3,435	-
Amortization of deferred financing costs	445	405
Amortization of bond premium	(1,981)	(2,123)
Loss from share of equity investment earnings	3,695	11,194
Dividends from equity investees	500	-
Net realized and change in unrealized gain on investments	(126,807)	(86,452)
Contributions from noncontrolling interests	-	(9,028)
Distributions to noncontrolling interests	-	863
Proceeds from restricted contributions and income received	(10,438)	(11,663)
Change in assets and liabilities		
Accounts receivable for patient services	(37,265)	(17,505)
Settlements due from third-party payors	(9,141)	(3,040)
Other current assets and inventory of supplies	(59)	(11,143)
Contributions and grants receivable	(6,830)	(9,321)
Interest in beneficial trusts	(168)	849
Right-of-use assets	10,318	9,612
Other noncurrent assets	(11,223)	(8,961)
Accounts payable	4,147	23,252
Accrued salaries and other expenses	(374)	(21,631)
Reserve for claims	7,827	(7,469)
Deferred revenue	(2,042)	7,519
Medical claims payable	(8,158)	(7,575)
Settlements due to third-party payors	5,698	(2,863)
Operating lease liabilities	(9,444)	(9,880)
Financing lease liabilities	(494)	793
Other noncurrent liabilities	10,644	6,945
Net cash, cash equivalents, and restricted cash provided by operating activities	79,092	125,258
Cash flows from investing activities		
Purchases of property, plant and equipment	(94,447)	(102,427)
Proceeds from sales of property and equipment	1,835	2,389
Purchases of investments	(94,512)	(298,682)
Sales of investments	78,525	232,638
Contributions to equity investments	(8,732)	(9,783)
Net cash, cash equivalents, and restricted cash used in investing activities	(117,331)	(175,865)
Cash flows from financing activities		
Payments of long-term debt	(16,020)	(9,498)
Payments of debt issuance costs	-	(19)
Contributions from noncontrolling interests	-	9,028
Distributions to noncontrolling interests	-	(863)
Proceeds from restricted contributions and income received	10,438	11,663
Proceeds from financing sale leaseback arrangement	-	10,000
Payments on financing lease obligations	(9,847)	(9,808)
Net cash, cash equivalents, and restricted cash (used) provided by financing activities	(15,429)	10,503
Decrease in cash, cash equivalents, and restricted cash	(53,668)	(40,104)
Cash, cash equivalents, and restricted cash		
Beginning of year	99,961	140,065
End of year	$ 46,293	$ 99,961
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 32,664	$ 33,945
Property and equipment in accounts payable	7,933	10,405

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

Organizational Structure

The Children's National Medical Center's ("Children's National") consolidated financial statements include the accounts of Children's Hospital (the "Hospital"); Children's Hospital Foundation (the "Foundation"); Children's National at Walter Reed, LLC ("CNWR"); Children's Research Institute ("CRI"); Safe Kids Worldwide ("Safe Kids"); Children's Pediatricians and Associates ("CP&A"); Children's National Health Network ("CNHN"); Pediatric Health Network ("PHN"); Children's School Services ("CSS"); Brainy Camps Association ("BCA"); the HSC Foundation and Subsidiaries ("HSC"); Bearacuda Reinsurance Company, Ltd. (the "Captive"); Building 52/53 NMTC Borrower LLC; Building 52/53 HTC Tenant LLC; Building 52/53 Managing Member LLC; Building 54 NMTC Borrower LLC; Building 54 HTC Tenant LLC; Building 54 Managing Member LLC; all referred to as the "Subsidiaries."

Children's National is a tax exempt, nonstock corporation, which controls its subsidiary corporations through its authority to appoint the governing boards of the tax exempt, nonstock subsidiaries or its stock ownership. Children's National and its subsidiaries provide health care services to infants, children, and youth in Washington, D.C., and the surrounding metropolitan area. The Hospital operates an acute care pediatric and teaching facility.

The Foundation supports and maintains the programs, services, and facilities of Children's National in part through solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt subsidiaries.

CNWR is a limited liability company organized for the purpose of holding certain real property conveyed by the United States Department of Defense to be used for public health purposes.

CRI is a research organization involved in providing services and support in connection with the delivery of health care services on behalf of the community.

Safe Kids is an organization involved in nonhospital pediatric health and safety activities.

CP&A is a limited liability corporation that operates for-profit physician practices. CP&A is owned 50% by Children's National and 50% by the Hospital.

CNHN is a for-profit physician hospital organization, of which Children's National is the sole shareholder.

PHN is a for-profit clinically integrated physician network, of which Children's National is the sole shareholder.

CSS is an organization that operates a school nurse program in the District of Columbia.

BCA is an organization that provides residential summer camps, support, and leadership programs for youth with chronic health conditions, of which the Hospital is the sole corporate member.

The HSC Foundation, a nonprofit corporation is organized to coordinate the activities of and provide support to The Hospital for Sick Children (the "Pediatric Center"), Health Services for Children with Special Needs, Inc ("HSCSN"), a managed care organization, and HSC Home Care, LLC.

The Pediatric Center is a Washington, D.C., nonprofit corporation, formed as a pediatric specialty care hospital.

HSCSN is a Washington, D.C., nonprofit corporation, formed as a health plan that services children and young adults who are residing in Washington, D.C. and qualify for the federal Supplemental Security Income program ("SSI") or a Tax Equity and Fiscal Responsibility Act ("TEFRA") wavier.

HSC Home Care, LLC is a Washington, D.C limited liability company, formed as Medicare and Medicaid certified home health agency that provides care for children who have complex health care needs and disabilities.

The Captive is a wholly owned captive insurance company established to assume general liability and malpractice risk for Children's National entities, effective August 1, 1997.

Building 52/53 NMTC Borrower LLC ("Building 52/53 Borrower"), a Washington, D.C., limited liability company, was formed to acquire, own, rehabilitate, lease, manage, and operate the property known as Building 52/53 in a manner that will qualify such rehabilitation for historic and new market rehabilitation tax credits to Section 47 of the Internal Revenue Code of 1986, as amended. The property is comprised of land and historic buildings located on the former campus of the Walter Reed Army Medical Center in Washington D.C. (the "WR Campus"). Building 52/53 is also located in a qualified census tract that meets certain income, unemployment and poverty level requirements and qualifies under the New Market Tax Credit Program as a qualified active low-income community business ("QALICB"). Through its ownership of Building 52/53 Managing Member LLC, CNMC holds a 90% interest in Building 52/53 Borrower. Building 52/53 Borrower follows a calendar based fiscal year.

Building 52/53 Managing Member LLC ("Building 52/53 MM"), a Washington D.C., limited liability company, is the managing member of Building 52/53 Borrower. Building 52/53 MM is a wholly owned subsidiary of Children's National and is taxed as a corporation. The member managers of Building 52/53 MM are officers and senior leaders of Children's National. As part of the New Market Tax Credit and Historic Tax Credit transactions, this separate, for-profit, single purpose entity was established to manage the Building 52/53 property to meet the QALICB requirements. Building 52/53 MM is the manager of the property and the managing member of Building 52/53 HTC Tenant LLC, holding a 1% interest in Building 52/53 HTC Tenant LLC. Building 52/53 MM follows a calendar based fiscal year.

Building 52/53 HTC Tenant LLC ("Building 52/53 Tenant"), a Washington, D.C., limited liability company, was formed to lease, manage and operate property owned by Building 52/53 Borrower. Building 52/53 Tenant has made an equity investment in Building 52/53 Borrower and is also a member with a 10% interest. Building 52/53 Tenant consists of a managing member with 1% interest and an investor member with a 99% interest. Building 52/53 Tenant and Building 52/53 Borrower have executed a historic tax credit pass-through agreement pursuant to which Building 52/53 Borrower will elect under Section 50 of the Internal Revenue Code to pass through to Building 52/53 Tenant the federal tax credits to which it is entitled because of the historic building's rehabilitation project. Children's National meets the requirements for consolidation of the Building 52/53 Tenant through its ownership of the managing member (Building 52/53 MM) and control of Building 52/53 Tenant. The 99% interest held by an investor member is reflected as non-controlling interest. Building 52/53 Tenant follows a calendar based fiscal year.

Building 54 NMTC Borrower LLC ("Building 54 Borrower"), a Washington, D.C., limited liability company, was formed to acquire, own, rehabilitate, lease, manage, and operate the property known as Building 54 in a manner that will qualify such rehabilitation for historic rehabilitation tax credits pursuant to Section 47 of the Internal Revenue Code of 1986, as amended. The property is comprised of land and a historic building located on the WR Campus. Through its ownership of Building 54 Managing Member LLC, CNMC holds a 90% interest in Building 54 Borrower. Building 54 Borrower follows a calendar based fiscal year. Building 54 Managing Member LLC ("Building 54 MM"), a Washington D.C., limited liability company, is the managing member of Building 54 Borrower. Building 54 MM is a wholly owned subsidiary of Children's National and is taxed as a corporation. The member managers of Building 54 MM are officers and senior leaders of Children's National. Building 54 MM is the manager of the property and the managing member of Building 54 HTC Tenant LLC, holding a 1% interest in Building 54 HTC Tenant LLC. Building 54 MM follows a calendar based fiscal year.

Building 54 HTC Tenant LLC ("Building 54 Tenant"), a Washington, D.C., limited liability company, was formed to lease, manage and operate property owned by Building 54 Borrower. Building 54 Tenant has made an equity investment in Building 54 Borrower and is also a member with a 10% interest. Building 54 Tenant consists of a managing member with 1% interest and an investor member with a 99% interest. Building 54 Tenant and Building 54 Borrower have executed a historic tax credit pass-through agreement pursuant to which Building 54 Borrower will elect under Section 50 of the Internal Revenue Code to pass through to Building 54 Tenant the federal tax credits to which it is entitled because of the historic building's rehabilitation project. Children's National meets the requirements for consolidation of the Building 54 Tenant through its ownership of the managing member (Building 54 MM) and control of Building 54 Tenant. The 99% interest held by an investor member is reflected as non-controlling interest. Building 54 Tenant follows a calendar based fiscal year.

Children's National, Hospital, Foundation, CRI, Safe Kids, CSS, BCA, the HSC Foundation, the Pediatric Center, and HSC Home Care, are not-for-profit organizations that qualify under Section 501(c)(3) of the Internal Revenue Code, and are therefore, not subject to tax under current income tax regulations.

2. Risk Factors

Children's National's ability to maintain or increase future revenues could be adversely impacted by: (1) future legislation, regulation, or other actions by federal, state, or District of Columbia agencies, which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for hospital services; (2) future legislation or adverse trends affecting the costs related to professional liability coverage; (3) changes in general and local economic conditions including the financial condition of the District of Columbia, the State of Maryland and the State of Virginia; and (4) a potential shortage of qualified doctors and other skilled healthcare professionals in the local employment market.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of Children's National and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Cash and Cash Equivalents

Cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. Children's National has not experienced such losses on these funds. Cash and cash equivalents held temporarily in the long-term investment portfolio are excluded, as they are not available for current use.

Investments and Assets Whose Use is Limited

Investments consist primarily of money market funds, government securities, equity securities (including common trust funds), and mutual funds and are reported at fair value. Investments that management does not consider necessary for current operations are classified as long-term.

Investments in companies in which Children's National does not have control but has the ability to exercise significant influence over operating and financial policies are accounted for under the equity method of accounting and operating results are recorded within investment return, net on the Consolidated

Statements of Operations. Dividends received are recorded as a reduction of the carrying amount of the investment.

Assets whose use is limited include cash and investments restricted under professional liability arrangements and debt agreements.

Restricted cash amounts included in short term assets whose use is limited represent amounts required to be set aside by debt or regulatory agreements. Restricted cash amounts included in assets whose use is limited represent amounts set aside to pay general and professional liability claims.

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

(in thousands)	2024	2023
Cash and cash equivalents	$ 44,678	$ 89,335
Short term assets whose use is limited	1,600	1,587
Assets whose use is limited	15	9,039
Cash, cash equivalents, and restricted cash	$ 46,293	$ 99,961

Investment Return, Net

Investment income or loss including interest and dividends, net of investment management fees; realized gains and losses on investments return, net and unrealized gains and losses on equity securities is reported as non-operating revenue and is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

Income Taxes

Children's National is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such basis, the exempt entities will not incur any liability for federal income taxes, except for possible unrelated business income.

The Financial Accounting Standards Board's ("FASB") guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. The guidance defines the threshold for recognizing tax return positions in the consolidated financial statements as "more likely than not" that the position is sustainable, based on technical merits.

Children's National evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. There was no impact on Children's National's consolidated financial statements during the years ended June 30, 2024 and 2023, as Children's National has no uncertain tax positions.

Accounts Receivable

Patient accounts receivable consists primarily of amounts owed by various governmental agencies, insurance companies and patients. Children's National manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Children's National reports accounts receivable at an amount equal to the consideration it expects to receive in exchange for providing healthcare services to its patients, which is estimated using contractual provisions associated with specific payors, historical reimbursement rates and analysis of past experience to estimate potential adjustments.

Children's National writes off amounts that have been deemed to be uncollectible because of circumstances that affect the ability of payors to make payments as they occur.

Inventories of Supplies

Inventories generally consist of medical and nonmedical supplies and are stated at the lower of cost or net realizable value, using the first in, first out method. The total inventory balance was $21.9 million and $16.0 million at June 30, 2024 and 2023, respectively.

Contributions and Grants

Unconditional promises to give cash and other assets are reported at fair value as contributions receivable at the date the promise is received. These promises are subject to annual donor approval and are restricted. Amounts due are recorded at the net realizable value discounted using a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received. An allowance for uncollectible pledges is recorded for pledges which may become uncollectible in future periods. Amounts deemed to be uncollectible have been written off. The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. The amounts Children's National will ultimately realize could differ from the amounts assumed in arriving at the present value and allowance for doubtful pledges. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. As of June 30, 2024 and 2023 conditional promises to give excluding those from grants, amounted to $82.2 million and $88.5 million, respectively.

The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Consolidated Statements of Operations as net assets released from restrictions used for operations. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Children's National and its subsidiaries receive various grants from Federal agencies and District of Columbia agencies for the purpose of furthering its mission of providing acute pediatric care, research, and education. For the majority if its grants, Children's National accounts for them under the contribution model, which is outside the scope of ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). Revenue for these grants is recognized as expenses are incurred. Grants recognized under ASC 606 were $33.4 million and $34.9 million in the years ended June 30, 2024 and 2023, respectively

The CARES Act, enacted in 2020, provided for an employee retention tax credit ("ERC") that was designed to encourage eligible employers to keep employees on their payroll, despite experiencing an economic hardship related to COVID-19. This allows eligible employers to claim the credit on wages paid after March 12, 2020 and before January 1, 2021. The ERC is accounted as a conditional promise to give under the contribution model. During the year ended June 30, 2024, Children's National deemed it was probable the governments' conditions for the ERC were met, that the purpose restriction was simultaneously met, and therefore recognized $19.0 million of grant revenue in the Consolidated Statement of Operations and grant receivables in the Consolidated Balance Sheets.

Total conditional contributions from grants as of June 30, 2024 and 2023 were $112.2 million and $83.0 million, respectively. Revenue for these conditional contributions will be recognized in future periods when the conditions are met. The conditions related to these contributions are based on performance barriers, a right of return, and scope related conditions as outlined under the Uniform Guidance cost principles. Children's National has elected the simultaneous release option which allows a conditional restricted contribution to be recognized directly in net assets without donor restrictions if the condition and restriction is met in the same period that the revenue is recognized.

Loan Receivable

As part of the New Market Tax Credit and Historic Tax Credit transactions, Children's Hospital made a leveraged loan to Children's National NMTC Investment Fund, LLC in the amount of $13.5 million in June 2019. The loan bears interest at 1.3% with quarterly interest only payments due September 2019 through March 2026, followed by quarterly principal and interest payments of $160 thousand through June 2049.

New Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* (ASC 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually and requires a current estimate of all expected credit losses. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities, and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in GAAP, which generally require that a loss be incurred before it is recognized. On July 1, 2023, Children's National adopted the guidance prospectively and required no cumulative adjustments to net assets. The adoption of ASC 326 had no material impact on the consolidated financial statements.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation expense on Children's National's property and equipment is recorded using the straight-line method, which allocates the cost of the tangible property equally over the estimated useful lives, beginning with the date the asset is placed in service. Below are the useful lives by asset category:

Buildings	25 - 40 years
Building improvements	9 - 20 years
Fixed equipment	10 - 15 years
Movable equipment	3 - 20 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any income earned. Repairs and maintenance are expensed as incurred. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Deferred Financing Costs

Financing costs incurred in connection with the issuance of long-term debt are deferred and amortized using the straight-line method, which approximates the effective interest rate method, over the period the debt is outstanding. Deferred financing costs are recorded in long-term debt on the Consolidated Balance Sheets. The amortization expense was approximately $0.4 million and $0.4 million for the years ended June 30, 2024 and 2023, respectively.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. Children's National's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairments of long-lived assets for the years ended June 30, 2024 and 2023.

Interest in Beneficial Trusts
Children's National also receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable remainder trusts, charitable gift annuities and perpetual trusts. In all of these agreements, Children's National has an interest in the trust, but is not the trustee. When the trust's obligations to all beneficiaries expire, the remaining assets revert to Children's National to be used according to the donor's wishes.

Deferred Compensation Plan
Children's National maintains a deferred compensation plan for certain employees. As of June 30, 2024 and 2023, deferred compensation investments of $51.6 million and $40.7 million, respectively, included in other assets on the Consolidated Balance Sheets, represent investments held by Children's National under these deferred compensation agreements. Such amounts approximate Children's National's related liability to the employees and are included in other long-term liabilities.

Net Assets
Net assets without donor restrictions include undesignated amounts as well as amounts designated by the board for future capital and operating purposes. Net assets with donor restrictions are those whose use by Children's National has been limited by donors to a specific time period or purpose, including federal appropriations restricted for capital improvements. Net assets are released from donor restriction by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors. Also included in net assets with donor restrictions are those gifts that have been restricted by donors to be maintained by Children's National in perpetuity.

Charity Care
Children's National, in keeping with its mission and philosophy to extend quality care and compassionate service, recognizes that some patients are unable to compensate Children's National for their treatment either through third party coverage or their own resources. Accordingly, Children's National extends charity or free care to those patients who do not have the ability to meet their obligations. Children's National provides free care based on federal poverty income guidelines or when it is determined that the patients are unable to fulfill their obligations to Children's National. Children's National also provides assistance in helping patients obtain third party coverage through state Medicaid programs. Because Children's National does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to $6.0 million and $7.6 million for the years ended June 30, 2024 and 2023, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charge is calculated based on Children's National's adjusted operating expenses divided by patient service revenue.

In addition to direct charity care, Children's National is committed to improving the health and well-being of children in the Washington, D.C., metropolitan area. Through programs of clinical intervention, community engagement, education and advocacy, Children's National strives to address the many challenges facing children and families today. Examples of programs addressing these challenges are the Community Pediatric Health Care Centers, school nursing services for District of Columbia Public Schools and District of Columbia Public Chartered Schools, Youth Violence Intervention Program, Early Childhood Innovation Network, and injury prevention outreach and education efforts. In addition to these efforts, we conducted a Community Health Needs Assessment, focused on the pediatric population in Wards 7 and 8 in the District of Columbia and Prince George's County, Maryland. With data from the Child Opportunity Index and feedback from community residents and leaders and hospital staff, four priorities were identified – healthy food, health insurance, early childhood education, and employment. A Community Health Improvement Plan (CHIP) was developed that describes the strategies and programming that will address the priorities. Workgroups implemented activities to meet the goals of the CHIP including, but not limited to, hosting a community conversation event focused on the inclusion of children with developmental disabilities in early childhood education programs, providing testimony and feedback for bills in the District of Columbia and Maryland, participating in a service learning activity with the local food bank and health fairs and events with local schools and early childhood centers, community based organizations and businesses, supporting youth engagement activities such as the Youth Leadership Advisory Council, and distributing postcards for Medicaid redetermination.

Excess of Revenues Over Expenses
The Consolidated Statements of Operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include, among other items, contributions released from restrictions for property and equipment.

Use of Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during reporting period. Actual results could differ from these estimates. These significant estimates include, among others, estimated net realizable value of patient receivables, estimated third-party payor settlements, and accrued insurance costs.

Accrued Vacation
Children's National records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior period. The liability for accrued vacation was $43.5 million and $40.1 million as of June 30, 2024 and 2023, respectively, and is recorded in accrued salaries and other expenses.

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

Reserve for Medical Malpractice Claims
Children's National's medical malpractice claims reserve is an estimate of payments to be made for claims losses incurred but not reported. The estimate was developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors. The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known, such adjustments are included in current operations.

Medical Claims Expense and Payable
HSCSN contracts with various health care providers for the provision of related medical care services to its members. The providers are compensated based on payment rates as specified in the provider agreements. Medical claims expense that has been reported in the accompanying Consolidated Statements of Operations includes an accrual for medical services incurred but not reported ("IBNR"). Medical claims expense is determined using a combination of methods including multiplying census times average daily rate for inpatient facilities, per-member-per-month for medical categories other than inpatient and, actual invoices for pharmacy and other vendors. IBNR is determined using the percentage of completion model analysis which uses paid claims to estimate the total dollar of claims outstanding at a given point in time.

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Children's National expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. Generally, Children's National bills the patient and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Children's National. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Children's National believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. Children's National measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and Children's National does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, Children's National has elected to apply the practical expedient provided in FASB ASC 606-10-50-14a, and therefore is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Children's National also provides services to uninsured patients. The transaction price for both uninsured patients, as well as insured patients with deductibles and coinsurance, is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Children's National determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. Children's National determines its estimate of implicit price concessions based on historical collection experience with these classes of patients using a portfolio approach as a practical expedient. The portfolio approach is being used as Children's National has a large volume of similar contracts with similar classes of customers. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. Children's National reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of change. No significant amounts of revenues were recognized in the current year due to changes in the estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in the prior years. Subsequent changes that are determined to be the results of an adverse change in the patient's or third-party payor's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the Consolidated Statements of Operations and Changes in Net Assets and was not significant for the years ended June 30, 2024 and 2023.

Children's National has agreements with third-party payors that provide for payments to Children's National at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed cost, discounted charges, and per diem payments. Contractual adjustments to patient service revenue were $2.4 billion and $2.2 billion for the years ended June 30, 2024 and 2023, respectively.

Approximately 45% and 43% of net patient service revenues were from Medicaid and Medicaid managed care programs in 2024 and 2023, respectively. Total reimbursements received for Graduate Medical Education ("GME") were $23.4 million in 2024 and $17.4 million in 2023. Federal GME is subject to appropriation each year.

Inpatient and outpatient services, defined capital and medical education costs related to beneficiaries are paid using a cost reimbursement methodology for Medicare and the Fee-for-Service Medicaid programs. These services are paid prospectively for DC Medicaid and Maryland Medicaid. For cost reimbursable items, Children's National is reimbursed at a tentative rate with final settlement determined after submission of the annual cost reports by Children's National and audits thereof by the fiscal intermediary. Children's National cost reports have been audited and settled by the Medicare intermediary through 2022 for all facilities. The Virginia Medicaid cost report is settled annually and is settled through 2022.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Children's National's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon Children's National. In addition, the contracts Children's National has with commercial payors also provide for retroactive audit and review of claims.

Cost report settlements under reimbursement agreements with Medicare and Medicaid for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Children's National's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2024 and 2023.

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

(in thousands)	2024	2023
Blue Cross	$ 307,784	$ 295,595
Commercial	14,757	20,125
Managed Care	385,457	372,942
Medicaid	667,161	599,328
Other	62,724	62,944
Self-pay	31,883	30,224
Total	$ 1,469,766	$ 1,381,158

Children's National has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Children's National's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, Children's National does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Capitation Revenue and Receivable
HSCSN receives a monthly interim capitation rate per enrollee and recognizes capitation revenue from premiums in the period that a member is eligible for health care coverage. Revenue related to capitation premiums consists of the amount the District of Columbia has contracted to pay for the provision of health care benefits. HSCSN has accrued the difference between the actual monthly interim payment and the estimated reimbursement for the actual monthly enrollee population served.

HSCSN entered a Child and Adolescent Supplemental Security Income Program ("CASSIP") agreement with the District of Columbia Department of Health Care Finance ("DHCF") to coordinate health care services for a defined group of Supplemental Security Income-eligible special needs children and youths. This indefinite-delivery indefinite-quantity contract is HSCSN's primary source of operating revenue. Under this agreement, DHCF pays HSCSN a fixed capitation amount based on the number of eligible participants enrolled in the program, subject to a final retroactive settlement. The contract requires an annual settlement process whereby DHCF and HSCSN share the benefits and risks associated with financial gains and losses of the managed care program, which are final settled through September 30, 2021.These amounts are included in due to third-party payers in the accompanying Consolidated Balance Sheets.

The capitation payment received by HSCSN has two components: one for administrative services and the second for medical services. The administrative services portion funds the management expenses of HSCSN, as well as the annual premium tax and Health Benefits Exchange (HBX) tax assessed by the District of Columbia, and factors in the potential for a 1.75% margin. The medical services portion pays for medical services (physician, hospital, pharmacy, home health, etc.), case management, utilization management, and quality oversight services.

The capitation payment is calculated based on the target medical claims ratio, which is the aggregate claims paid for the year for services covered, and medical management expenses as determined by Maryland's COMAR regulations. This medical services portion of HSCSN's capitation payment is subject to a risk sharing arrangement. If the total costs for medical services differs from the threshold specified in the CASSIP agreement, then the over/under outside of the base 2% corridor is shared between HSCSN and DHCF on a sliding scale, where HSCSN is at risk for a proportion of the overage for 50% or benefits from the underage at a similar proportion. DHCF is 100% at risk or benefits from the underage when costs for medical services exceed or fall below the threshold for which HSCSN is responsible.

HSCSN's third party receivables and payables result from this single contract with the DHCF. Termination of the contract or non-payment by the DHCF of the capitation revenue or risk receivable would have a material adverse effect on future operations and the liquidity of HSCSN. The initial year of the current contract with DHCF expired on September 30, 2022 and includes four 1-year option periods.

HSCSN's ability to maintain and/or increase future revenue could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee for service networks and capitated fee arrangements; (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the inability of the District of Columbia, Maryland and Virginia Medicaid programs to correctly process medical claims and ultimately pay the System for services it provides to their patients; (4) the inability to collect on revenue earned for services provided; and (5) possible changes in general and local economic conditions, which could cause volatility in and/or limitations to access to capital and debt markets.

Other Revenue
In addition to net patient service and capitation revenue. Children's National also recognizes revenue related to other transactions. These transactions include revenues from parking, collaborative arrangements with other healthcare providers, transport, and Pediatric Specialists of Virginia ("PSV"). Additionally, revenue earned from the sale of pharmaceuticals at contracted pharmacies to patients is the

most significant revenue stream in other operating revenue on the Consolidated Statements of Operations. Pharmacy revenue recognized was $68.3 million for the year ended June 30, 2024 and $30.1 million for the fiscal year ended June 30, 2023.

Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied. Revenue from these transactions is measured as the amount of consideration Children's National expects to receive from those services.

4. Fair Value Measurements

Children's National follows the FASB's guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements, and accordingly, this guidance does not require any new fair value measurements.

The guidance discusses valuation techniques such as the market approach, cost approach and income approach. This guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date.

The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1 Observable inputs such as quoted market prices for identical assets or liabilities in active markets;

Level 2 Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and

Level 3 Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below has been valued utilizing the market approach.

The following tables present the financial instruments carried at fair value grouped by hierarchy level:

(in thousands)	June 30, 2024		
	Quoted In Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total Fair Value**
Assets			
Investments			
Cash and short term investments	$ 45,514		$ 45,514
Fixed income securities	323,749	32,291	356,040
Equity securities	862,520	425	862,945
Real estate investments		5,125	5,125
Total investments	1,231,783	37,841	1,269,624
Deferred compensation money market funds	4,339		4,339
Deferred compensation mutual funds	47,253		47,253
Beneficial interests held by 3rd party		1,163	1,163
Perpetual trusts held by 3rd party		7,817	7,817
Short term assets whose use is limited by terms of debt agreement	2,185		2,185
Total assets at fair value	$ 1,285,560	$ 46,821	$ 1,332,381
Investment funds at NAV			4,050
			$ 1,336,431
Liabilities			
Deferred compensation liability		$ 52,499	52,499
Total liabilities at fair value	$ -	$ 52,499	$ 52,499

(in thousands)	June 30, 2023		
	Quoted In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Assets			
Investments			
Cash and short term investments	$ 74,610	$ -	$ 74,610
Fixed income securities	400,584	33,732	434,316
Equity securities	620,844	425	621,269
Real estate investments	-	6,125	6,125
Total investments	1,096,038	40,282	1,136,320
Deferred compensation money market funds	3,737	-	3,737
Deferred compensation mutual funds	37,003	-	37,003
Beneficial interests held by 3rd party	-	1,141	1,141
Perpetual trusts held by 3rd party	-	7,671	7,671
Short term assets whose use is limited by terms of debt agreement	2,147	-	2,147
Total assets at fair value	$ 1,138,925	$ 49,094	$ 1,188,019
Investment funds at NAV			4,029
			$ 1,192,048
Liabilities			
Deferred compensation liability		$ 41,755	41,755
Total liabilities at fair value	$ -	$ 41,755	$ 41,755

The following tables present information for investments measured at net asset value ("NAV") as of June 30:

(in thousands) Description	NAV at June 30, 2024	Redemption frequency	Redemption notice period	Receipt of proceeds	June 30, 2024 unfunded commitments
Limited partnership	$ 2,683	Ranges from illiquid to quarterly	60 days	Ranges from 95% on redemption date, to within 3 years of redemption date	$2,317
Funds of funds	1,367	Ranges from monthly to annually	Ranges from 5 to 65 days	Ranges from 95% on redemption date, to within one year of redemption date	$299
	$ 4,050				

(in thousands) Description	NAV at June 30, 2023	Redemption frequency	Redemption notice period	Receipt of proceeds	June 30, 2023 unfunded commitments
Limited partnership	$ 2,113	Ranges from illiquid to quarterly	60 days	Ranges from 95% on redemption date, to within 3 years of redemption date	$ 2,894
Funds of funds	1,916	Ranges from monthly to annually	Ranges from 5 to 65 days	Ranges from 95% on redemption date, to within one year of redemption date	$ 362
	$ 4,029				

Following is a description of the Children's National valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that Children's National has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. Children's National does not adjust the quoted price for such assets and liabilities. Level 1 investments include cash and cash equivalents including money market accounts, fixed income and equity securities, and mutual funds that are traded in an active exchange market. Cash equivalents are considered short term investments.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Level 2 investments include certain equity mutual funds, real estate investments, corporate bond funds, US government obligations, and federal agency obligations.

Certain investments are measured at NAV, which consist of limited partnerships and fund of funds. The limited partnerships represent domestic and offshore private placement securities. The fund of funds are investment funds, which invest in other investment funds to reach their desired investment objectives. The master funds are investment funds, which invest substantially all their assets through a "master feeder" structure to pool investment capital raised by both U.S. and overseas investors into one central vehicle. The investment fund investments have varying liquidity terms from illiquid to annual liquidity.

The fair value of the obligations under deferred compensation agreements approximates the fair value of the other investment assets, which are determined using quoted market prices. These assets are comprised of mutual funds and money market funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Children's National believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

5. Property and Equipment

The components of property and equipment as of June 30 are summarized below:

(in thousands)	2024	2023
Land	$ 35,486	$ 35,486
Buildings and building improvements	1,461,257	1,431,198
Fixed and movable equipment	472,417	429,892
	1,969,160	1,896,576
Less: Accumulated depreciation	(1,159,294)	(1,072,093)
	809,866	824,483
Construction in progress	67,925	62,381
Property and equipment, net	$ 877,791	$ 886,864

Depreciation and amortization expense for the years ended June 30, 2024 and 2023 was $112.5 million and $111.8 million, respectively.

Children's National owns various buildings at the Children's National Research and Innovation Campus for which an environmental retirement obligation was recorded. The balances of such liabilities were $0.9 million as of June 30, 2024 and 2023, respectively.

During the year ended June 30, 2024, Children's National disposed of long-lived assets with a net book value of $1.7 million. Of this amount, $1 million was related to assets classified as investments in the Consolidated Balance Sheets. During the year ended June 30, 2023, Children's National disposed of long-lived assets with a net book value of $2.8 million.

6. Contributions Receivable

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

(in thousands)	2024	2023
Less than one year	$ 41,820	$ 40,712
One to five years	22,047	33,917
More than five years	-	-
	63,867	74,629
Less: Discount	(1,344)	(2,083)
Allowance for uncollectible contributions	(934)	(1,092)
Contribution receivable, net	$ 61,589	$ 71,454

Contributions receivable greater than one year in time are discounted using a rate of return that a market participant would expect to receive over the period at the date the pledge is received. The discount rate used is commensurate with the risk involved and ranges from 0.3% to 4.9% based on the date the pledge is made. Loss from uncollectible pledges was $0.2 million and $4.7 million for the years ended June 30, 2024 and 2023, respectively.

7. Investments and Assets Whose Use is Limited

The composition and fair values of investments and assets whose use is limited, as reported on the accompanying Consolidated Balance Sheets, at June 30 is as follows:

(in thousands)	2024	2023
Limited by terms of debt agreements		
Cash and short term investments	$ 2,185	$ 2,147
Total assets whose use is limited by terms of debt agreements	$ 2,185	$ 2,147
Limited for professional liability claims		
Cash and short term investments	$ 15	$ 9,039
Fixed income securities	25,184	26,299
Equity securities	26,260	18,520
Total funded professional liability	$ 51,459	$ 53,858
Investments		
Cash and short term investments	$ 45,499	$ 65,571
Fixed income securities	330,855	408,018
Equity securities	836,685	602,750
Equity method investments	6,941	2,982
Real estate investments	5,125	6,125
Alternative investments	4,050	4,029
Total Investments	$ 1,229,155	$ 1,089,475
Interest in Beneficial Trusts		
Beneficial interests held by 3rd party	$ 1,163	$ 1,141
Perpetual trusts held by 3rd party	7,817	7,671
Total interest and beneficial trusts	$ 8,980	$ 8,812

Investments included approximately $384.0 million and $332.7 million at June 30, 2024 and 2023, respectively, of funds which are restricted by donors for specific programs or for capital improvements.

Investment returns consisted of the following:

(in thousands)	June 30, 2024		
	Without Donor Resctrions	**With Donor Restrictions**	**Total**
Dividends and interest income	$ 26,936	$ 6,949	$ 33,885
Loss on equity method investments	(3,695)	-	(3,695)
Realized gains	4,959	573	5,532
Investment income	28,200	7,522	35,722
Change in net unrealized gain/(loss) on investments	92,680	30,421	123,101
Total investment returns, net	$ 120,880	$ 37,943	$ 158,823

(in thousands)	June 30, 2023		
	Without Donor Resctrions	**With Donor Restrictions**	**Total**
Dividends and interest income	$ 21,818	$ 5,856	$ 27,674
Loss on equity method investments	(11,188)	-	(11,188)
Realized gains	643	21	664
Investment income	11,273	5,877	17,150
Change in net unrealized gain/(loss) on investments	64,292	21,496	85,788
Total investment returns, net	$ 75,565	$ 27,373	$ 102,938

Realized gains and losses are calculated by comparing proceeds upon sale of an investment to its original cost, or its cost less any adjustment recorded for other-than-temporary loss on investments where applicable. The change in unrealized gains and losses on investments reflects the increase or decrease during the period in the difference between the fair value and the carrying amount of securities. Interest and dividend earnings (net of expenses), net realized gains and losses on investments and the net change in unrealized gains and losses on investments are considered investment income and are included and primarily recorded in investment returns, net on the Consolidated Statement of Operations.

In October of 2013, Children's National and Inova Health Care Services ("Inova") partnered in a joint venture to create PSV. PSV is a Virginia limited liability company which provides high-quality pediatric specialty care to the children of Northern Virginia through clinical excellence, innovation, education, research, and family-centered care. Children's National has a 50% investment in PSV, and it is accounted for under the equity method. Inova owns the remaining 50% of PSV.

PSV is governed by an eight-member Management Committee of which Children's National has four members. Any action by the Management Committee must be approved by a majority of the members, provided that it includes an affirmative vote by both one Inova representative and one Children's National representative. PSV's net assets were $8.9 million and $5.9 million as of June 30, 2024 and 2023, respectively.

Children's National's investment in PSV was $4.5 million and $3.0 million as of June 30, 2024 and 2023, respectively. Children's National's contributed cash of $8.2 million and $9.8 million to PSV during the year ended June 30, 2023 and 2022, respectively. Children's National's share of losses from PSV as of June 30, 2024 and 2023 were $6.7 million and $11.2 million, respectively and are included within investment income in the Consolidated Statements of Operations.

In 2008, Children's National was issued shares of common stock.in Validus Biopharma, Inc, which changed its name to ReveraGen Biopharma, Inc. ("Reveragen") in 2011. Reveragen is governed by a Board of Directors, of which Children's National has 40% of members. Children's National holds 36.6% equity ownership in ReveraGen as of June 30, 2024. The remaining shares are held by a foundation and individual shareholders.

The investment in ReveraGen is accounted for under the equity method. ReveraGen's net assets were $6.7 million and $0.1 million as of June 30, 2024 and 2023, respectively. Children's National's share of earnings are included within investment income in the Consolidated Statements of Operations.

8. Liquidity and Availability

As of June 30, financial assets, and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

(in thousands)	**2024**	**2023**
Financial assets		
Cash and cash equivalents	$ 44,678	$ 89,335
Short term investments	22,418	40,813
Short term assets whose use is limited by terms of debt agreement	2,185	2,147
Accounts receivable for patient services, net	348,933	311,668
Settlements due from third-party payors	22,520	13,379
Current contributions receivable without donor restrictions, net	6,108	5,784
Grants receivable	41,868	25,260
Total financial assets available within one year	488,710	488,386
Liquidity resources:		
Bank line of credit	100,000	100,000
Total financial assets and liquidity resources available within one year	$ 588,710	$ 588,386

As part of the Children's National's liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments, or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due. To manage liquidity, Children's National maintains a $100.0 million line of credit, as discussed in Note 9, *Debt.*

In addition, Children's National has board designated investments which are available for general expenditure upon Board approval. The amount of board designated investments was $797.2 million and $696.3 million as of June 30, 2024 and 2023, respectively.

Through its budgeting process, the CNMC Board authorizes access and release of board designated funds, transfer among CNMC and its affiliates, and transfers to operating accounts by taking action that approves the use of the funds. The CNMC Board also maintains banking and signature policies that authorize individual signers to transfer investment funds to the operating accounts. The CNMC Board may also rely upon the review and recommendations of its Finance and Investment Committee and the Board of its Affiliates.

9. Debt

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

(in thousands)	**2024**	**2023**
Series 2015 bonds maturity between July 15, 2019 and July 15, 2044, interest rates ranging from 4.00% to 5.00%	$ 325,320	$ 334,075
Series 2020 bonds, interest only at 2.93%, maturing on July 15, 2050	300,000	300,000
Bank Qualified Revenue Bonds	-	6,575
Other long-term debt	56,092	56,782
Notes payable	18,820	18,820
Total debt	700,232	716,252
Unamortized premiums and discounts, net	17,946	19,928
Unamortized debt issuance costs	(8,563)	(9,009)
	709,615	727,171
Less: Current portion	(11,803)	(12,027)
Total long-term debt	$ 697,812	$ 715,144

Series 2015 Bonds

In September 2015, the Children's National Obligated Group ("Obligated Group") borrowed from the District of Columbia (the "District") the proceeds of a series of tax-exempt revenue refunding bonds ("Series 2015 Bonds") issued by the District in the principal amount of $374.0 million. The Obligated Group consists of Children's Hospital, CNWR (joined September 2016), and the Foundation. The Series 2015 Bonds were sold at a premium of $39.8 million which is being amortized using the effective interest method. The amortization expense for the years ended June 30, 2024 and 2023 was $2.0 million and $2.1 million, respectively. The proceeds were used to advance refund the outstanding Series 2008 and Series 2005 Bonds and pay the cost of issuance associated with the Series 2015 Bonds. The Series 2005 Bonds and the Series 2008 Bonds ($139.5 million and $248.6 million outstanding as of the advance refunding date, respectively) were issued or refinanced as tax-exempt revenue bonds with fixed interest rates and a final maturity date of July 2035 and July 2044, respectively. The Series 2005 Bonds and the Series 2008 Bonds each had a call provision where the bonds could not be redeemed until July 2018. On July 15, 2018 the bonds were redeemed for $394.2 million, including interest.

The Series 2015 Bonds are comprised of four tranches:

- $195,030,000 5.00% Serial Bonds due July 15, 2016 through July 15, 2035
- $40,315,000 4.00% Term Bonds due July 15, 2040
- $50,000,000 5.00% Term Bonds due July 15, 2040
- $88,615,000 5.00% Term Bonds due July 15, 2044

Series 2020 Bonds

In August 2020, the Obligated Group issued the Children's Hospital Series 2020 Taxable Bonds ("Series 2020 Bonds") in the principal amount of $300.0 million. The proceeds from the sale of the Series 2020 Bonds were used to finance general corporate purposes of the Obligated Group, refinance the Bank of America Loan, and pay expenses in conjunction with the issuance of the Series 2020 Bonds. The Series 2020 Bonds bear interest at a fixed rate of 2.93 percent per annum and mature on July 15, 2050 with interest-only payments due January 15 and July 15 of each year.

The most restrictive covenant for the Series 2015 and 2020 Bonds requires the Obligated Group to maintain a minimum debt service coverage ratio of 1.1. The Obligated Group was in compliance with this covenant as of June 30, 2024.

Bank Qualified Revenue Bonds

The HSC Pediatric Center is obligated under Bank Qualified Revenue Bonds, in the original principal amount of $11,525,000, which were scheduled to mature (subject to prior redemption) on January 1, 2035. The bank had the option to terminate the loan and call the debt on December 17, 2020. Principal payments were made annually, and interest payments were made monthly. The variable interest rate on the bonds was the lesser of the bank rate as determined in accordance with the indenture and the maximum rate permitted by law. In April 2020, the loan was refinanced through the same bank for the amount outstanding at that date of $8,475,000. The refinanced loan has a 15-year term with scheduled monthly principal payments of $50,000 and interest payments. The variable interest rate is equal to 79% of the sum of the 1-month London Inter-bank Offer Rate ("LIBOR") plus 1.45%, as defined. In June 2023, the interest rate was converted to a Secured Overnight Financing Rate ("SOFR") based rate of 79% of the sum of 1 month term SOFR + 1.1455%. On February 1, 2024, the remaining balance of the loan, including all accrued interest, was repaid.

Notes Payable

On June 20, 2019, CITI NMTC SUBSIDIARY CDE XXXIV, LLC, a Delaware limited liability company, issued two loans to Building 52/53 Borrower providing historic and new market rehabilitation tax credit financing for two buildings and certain real property located at 7115 and 7125 13th Place, NW, Washington, D.C. known as Walter Reed Building 52 and Building 53.

The first loan, Promissory Note A1 in the amount of $6,132,174, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September, and December. Upon the conclusion of the interest only period payments in the amount of $74,758, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

The second loan, Promissory Note B1, in the amount of $2,687,826, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September and December. Upon the conclusion of the interest only period payments in the amount of $32,768, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

On June 20, 2019, NTCIC-CNWR, LLC, a Delaware limited liability company, issued two loans to Building 52/53 Borrower providing historic and new market rehabilitation tax credit financing for Walter Reed Building 52 and Building 53.

The first loan, Promissory Note A2 in the amount of $7,363,526, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September, and December. Upon the conclusion of the interest only period payments in the amount of $89,770, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

The second loan, Promissory Note B2 in the amount of $2,636,474, accrues interest at 1.0% per year and is computed on the basis of a 360-day year, based upon four 90-day quarters. The loan has a 30-year term with interest only payments required until June 2026. Payments are due quarterly on the 1st day of each March, June, September and December. Upon the conclusion of the interest only period payments in the amount of $32,142, consisting of both interest and principal begin on September 1, 2026. The loan matures on June 20, 2049.

The notes are collateralized by Building 52/53 Borrower's property and the improvements. Building 52/53 Borrower may not encumber, transfer ownership, relocate or otherwise act so as to decrease the value of all, or any portion of, the property without prior written consent. The notes are guaranteed by Children's National.

Other Long-Term Debt
In September 2020, Children's Hospital was conveyed title to certain property and land located in Prince George's County, MD that it previously leased from a third-party developer under an operating lease. In exchange for deed and title to the property, Children's Hospital entered a lease-leaseback transaction with an unrelated third party. Children's National guarantees the lease payments made by Children's Hospital. For accounting purposes, this transaction was accounted for as an in-substance net financing as a lease does not exist with the unrelated third party, that is, the right to control the use of the asset was not conveyed to the third party both during and after the leaseback transaction. Children's National recorded other long-term debt, net of debt issuance costs, in the amount of $55.8 million, assets of $54.5 million and removed the existing operating lease liability and right-of-use assets of $30.2 million and $28.3 million, respectively from its Consolidated Balance Sheet as of the transaction date. No gain or loss was recorded as a result of this transaction during the year ended June 30, 2021. The other-long term debt is amortized based on the monthly lease payments using the effective interest method at an interest rate of 3.14%.

Lines of Credit
On January 29, 2021, Children's Hospital entered a $100.0 million revolving Line of Credit with Capital One, N.A. for a one-year term (the Capital One credit agreement) which was renewed on January 28, 2022 and again on January 27, 2023 for additional one-year term. During this time, the Capital One credit agreement bore interest at a variable rate equal to 1 Month Term SOFR plus 0.45%. and a commitment fee of 12.5 basis points.

On January 26, 2024, Children's Hospital renewed its $100.0 million revolving Line of Credit with Capital One, N.A. through January 31, 2025 (the Capital One credit agreement). The Capital One credit agreement bears interest at a variable rate equal to 1 Month Term SOFR plus 0.75% and a commitment fee of 20.0 basis points. There were no amounts outstanding as of June 30, 2024.

Maturities and sinking fund requirements of long-term debt outstanding for the next 5 years and thereafter as of June 30, 2024 were as follows:

(in thousands)	
2025	$ 9,964
2026	10,499
2027	11,783
2028	12,390
2029	13,013
Thereafter	642,583
	$ 700,232

Total interest expense was $30.7 million and $31.6 million for the years ended June 30, 2024 and 2023, respectively. Cash paid for interest was $32.7 million and $33.9 million for the years ended June 30, 2024 and 2023, respectively, and includes capitalized interest for construction projects of $0.6 million and $0.4 million, net of investment income for the year ended June 30, 2024 and 2023, respectively.

10. Endowments

Children's National endowment consists of individual donor restricted endowment funds for a variety of purposes. In addition, contributions receivables, split interest agreements, and other net assets have been designated for Children's National endowment.

The Board of Trustees of Children's National has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Children's National classifies net assets with donor restrictions (a time restriction in perpetuity), (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions (a time restriction in perpetuity) is classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated for expenditure by Children's National in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Children's National considers the following factors in making a determination to appropriate or accumulate endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of Children's National and the donor-restricted endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of Children's National; and
(7) The investment policies of Children's National.

Endowment net asset composition by type of fund for the years ended June 30 were as follows:

(in thousands)	2024		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds			
Historical gift value	$ -	$ 196,994	$ 196,994
Appreciation	-	101,547	101,547
Total endowment funds	$ -	$ 298,541	$ 298,541

(in thousands)	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds			
Historical gift value	$ -	$ 191,756	$ 191,756
Appreciation	-	74,346	74,346
Total endowment funds	$ -	$ 266,102	$ 266,102

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

(in thousands)	2024		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ -	$ 266,103	$ 266,103
Investment return, net	-	37,998	37,998
Gifts	-	4,886	4,886
Loss from unollectible pledges	-	31	31
Appropriation for expenditure	-	(10,477)	(10,477)
Endowment net assets, end of year	$ -	$ 298,541	$ 298,541

(in thousands)	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ -	$ 239,821	$ 239,821
Investment return, net	-	27,427	27,427
Gifts	-	8,412	8,412
Appropriation for expenditure	-	(9,558)	(9,558)
Endowment net assets, end of year	$ -	$ 266,102	$ 266,102

Description of the amounts classified as net assets with donor restrictions held in perpetuity (endowments only) as of June 30 is a follows:

(in thousands)	2024	2023
Patient care	$ 96,357	$ 89,274
Health-related education	7,002	7,000
Research	93,635	95,482
	$ 196,994	$ 191,756

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. There were no deficits in donor gift amounts as of June 30, 2024 and 2023.

Return Objectives and Risk Parameters

Children's National has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. Children's National expects its endowment funds over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, Children's National relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Children's National targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees of Children's National determines the method to be used to appropriate endowment funds for expenditure. Calculations were performed for individual endowment funds at a rate of 4.5% of the three-year rolling average using a monthly average over the most recent 36 months ended June 30th. The corresponding calculated spending allocations were distributed annually in the first month of the fiscal year from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board considered the expected long-term rate of return on its endowment. Accordingly, over the long term, Children's National expects the current spending policy to allow its endowment to grow at between 3-8% annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions, consisting of cash, investments, and contributions receivable, were available for the following purposes at June 30:

(in thousands)	2024	2023
Patient care	$ 199,737	$ 184,548
Building expansion and equipment	5,213	7,256
Health-related education	10,830	9,315
Research	28,153	34,366
Endowment funds	196,994	191,756
Charitable remainder trusts	1,141	1,141
	$ 442,068	$ 428,382

12. Insurance

Children's National self-insures for malpractice and general liability claims up to a retention limit and carries excess coverage above that limit. On August 1, 1997, Children's National established the Captive as a wholly owned captive insurance company to assume the retained portion of medical malpractice, employment, and general liability claims of Children's National arising on or after August 1, 1997. Cash transfers to the Captive are based on premium levels established by the Captive's management, as well as Cayman Islands statutory capital requirements.

The reserve for claims shown in the accompanying Consolidated Balance Sheets represents the reserve for asserted and unasserted malpractice and comprehensive general liability claims against Children's National and its affiliated physicians. The reserve for claims is estimated by management using information supplied by legal counsel and an independent actuarial firm.

Malpractice and other claims in excess of the reserve for claims have been asserted against Children's National, and it is possible that actual claim liabilities could differ from estimated amounts in the near term. However, management and legal counsel do not believe that the ultimate cost of resolving asserted and unasserted claims related to events having occurred through June 30, 2024 are materially in excess of the reserve for claims and malpractice insurance coverage.

Children's National also self-insures for employee health and dental claims. In addition, Children's National has a deductible of $500 thousand per occurrence for workers' compensation. Amounts accrued in the accompanying Consolidated Balance Sheets for the estimated cost of health and dental care claims incurred, including estimates for incurred but not reported amounts, were approximately $6.8 million and $9.8 million as of June 30, 2024 and 2023, respectively. Amounts accrued for workers compensation claims were approximately $3.2 million and $3.1 million as of June 30, 2024 and 2023, respectively.

13. Benefit Plans

Children's National sponsors defined contribution retirement plans that are available to substantially all employees. Children's National makes contributions to the plans on behalf of each participant based on the employee's level of contribution. The cost of the plan to Children's National was approximately $31.4 million and $30.9 million as of June 30, 2024 and 2023, respectively.

Children's National also has incentive compensation plans, based on achievement of organizational and individual goals, and deferred compensation arrangements. Assets and liabilities related to the deferred compensation arrangements are included in other noncurrent assets and other noncurrent liabilities in the accompanying Consolidated Balance Sheets in the amount of approximately $55.7 million and $45.2 million as of June 30, 2024 and 2023, respectively.

14. Leases

Children's National determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, current portion of operating lease liabilities and long-term operating lease liabilities on the Consolidated Balance Sheets. Financing leases are included in financing right-of-use assets, current portion of financing lease liabilities and long-term financing lease liabilities on the Consolidated Balance Sheets. Leases are recognized based on the present value, net of the future minimum lease payments over the lease term using the organization's incremental borrowing rate based on the information available at commencement and include both lease and non-lease components. The right-of-use asset is derived from the lease liability and includes any lease payments made and excludes lease incentives and initial direct costs incurred. Certain lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability balances. Lease agreements may include one or more renewal options which are at the organization's sole discretion. Children's National does not consider the renewal options to be reasonably likely to be exercised, therefore they are not included in right-of-use assets and lease liabilities. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term for operating leases.

In accordance with ASC 842, *Leases*, Children's National has elected to not recognize ROU assets and lease liabilities for short-term leases with a lease term of 12 months or less. Children's National recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as all other leases.

Children's National is obligated under various operating and financing real property and equipment leases for medical and administrative offices and equipment with remaining terms of 1 to 24 years, some of which include options to extend or options to terminate the leases. Several of these leases contain escalation clauses, with fixed-rate increases ranging from 2%-4%.

Lease expense for the years ended June 30 are as follows:

(in thousands)	**2024**	**2023**
Financing lease expense:		
Amortization of right-of-use assets	$ 10,576	$ 10,496
Interest on lease liabilities	5,708	6,112
Opearting lease expense	14,050	13,418
Short-term lease expense	4,611	4,749
Variable lease expense	4,163	3,887
Total lease cost	$ 39,108	$ 38,662

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

(in thousands)	Operating Leases	Financing Leases
2025	$ 12,943	$ 16,509
2026	13,332	16,885
2027	12,981	17,211
2028	12,611	17,513
2029	11,704	17,841
2030 and thereafter	45,599	93,405
Total future minimum payments	109,170	179,364
Less: Present Value Discount	(24,161)	(30,917)
Present value of net minimum lease payments	$ 85,009	$ 148,447

The weighted average remaining lease term and discount rate as of June 30, 2024 is as follows:

Weighted average remaining lease terms (in years):	
Operating Leases	8.26
Financing Leases	10.38
Weighted average discount rate:	
Operating Leases	3.89%
Financing Leases	2.82%

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

(in thousands)

Cash paid (received) for amounts included in the measurement of lease liabilities:	2024	2023
Operating cash flows for operating leases	$ 13,491	$ 15,276
Operating cash flows for financing leases	5,543	5,832
Financing cash flows for financing leases	9,847	9,808
Right of assets obtained in exchange for lease liablities		
Operating leases	$ 5,607	$ 11,642
Financing leases	837	3,942

Children's National entered into a sale-leaseback agreement with the District of Columbia involving property at its CNRIC campus. Under the arrangement, Children's National sold property for $20.0 million and leased back the same property for an initial term of 15 years with the option to renew the lease for an additional 14 years. Under the terms of the lease, Children's National pays base rent of one dollar per year and has the option to purchase the property back at the end of the lease term which precludes treating the transfer of the property as a sale. As such, Children's National treated the transaction as a financing obligation and recorded $20.0 million in other long-term liabilities, $10.0 million in cash and $10.0 million in other accounts receivable during the year ended June 30, 2022. Children's National received a $10.0 million payment reducing the related other accounts receivable to $0 during the year ended June 30, 2023.

15. Concentrations of Credit Risk

Financial instruments which subject Children's National to concentrations of credit risk consist primarily of cash and cash equivalents, investments, assets who use is limited and patient accounts receivable.

Children's National grants credit without collateral to its patients, most of whom are residents insured under third party payor agreements. The mix of Hospital accounts receivable, net was as follows:

	2024	2023
Managed Care/Commercial	48%	48%
Maryland Medicaid	18%	22%
District of Columbia Medicaid	17%	12%
Virginia Medicaid and other	16%	16%
Self-pay	1%	2%
	100%	100%

16. Functional Expenses

Children's National provides health care services to children both within and outside its geographical service area. Children's National's consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest and other occupancy costs, are allocated to a function based on a square footage or units of service basis. Expenses related to providing these services are as follows:

(in thousands)	June 30, 2024				
	Support Services		Program Services		
Operating expenses:	**Fundraising**	**Management and General**	**Patient Care**	**Research**	**Total**
Salaries, wages and benefits	$ 6,878	$ 281,959	$ 798,085	$ 74,714	$ 1,161,636
Supplies & other	358	178,518	317,355	54,112	550,343
Medical claims expense	-	-	98,488	-	98,488
Depreciation & amortization	62	77,989	26,200	8,216	112,467
Insurance	-	13,151	12,548	-	25,699
Interest	-	8,962	21,725	63	30,750
Development expense	26,473	950	-	-	27,423
Total operating expenses	$ 33,771	$ 561,529	$ 1,274,401	$ 137,105	$ 2,006,806

(in thousands)	June 30, 2023				
	Support Services		Program Services		
Operating expenses:	**Fundraising**	**Management and General**	**Patient Care**	**Research**	**Total**
Salaries, wages and benefits	$ 6,768	$ 229,619	$ 784,189	$ 65,523	$ 1,086,099
Supplies & other	214	173,638	269,775	44,592	488,219
Medical claims expense	-	-	83,694	-	83,694
Depreciation & amortization	63	79,272	26,297	6,139	111,771
Insurance	-	11,417	8,351	-	19,768
Interest	-	8,639	22,501	497	31,637
Development expense	26,446	849	-	-	27,295
Total operating expenses	$ 33,491	$ 503,434	$ 1,194,807	$ 116,751	$ 1,848,483

17. Noncontrolling Interests

The following table reconciles the carrying amounts of Children's National's controlling interest and the noncontrolling interests for net assets without donor restrictions:

(in thousands)	**Total**	**Controlling Interest**	**Noncontrolling Interests**
Balance at June 30, 2022	$ 877,901	$ 858,844	$ 19,057
Excess (deficit) of revenues over expenses	100,763	101,087	(324)
Contributions from noncontrolling interests	9,028	-	9,028
Distributions to noncontrolling interests	(863)	-	(863)
Released from restrictions for property and equipment	2,668	2,668	-
Unrestricted contributions for property and equipment	510	510	-
Other changes in net assets without donor restrictions	-	-	-
Balance at June 30, 2023	$ 990,007	$ 963,109	$ 26,898
Excess (deficit) of revenues over expenses	128,571	128,824	(253)
Contributions from noncontrolling interests	-	-	-
Distributions to noncontrolling interests	-	-	-
Released from restrictions for property and equipment	2,165	2,165	-
Unrestricted contributions for property and equipment	-	-	-
Other changes in net assets without donor restrictions	-	-	-
Balance at June 30, 2024	$ 1,120,743	$ 1,094,098	$ 26,645

18. Commitments and Contingencies

Children’s National is involved in litigation and regulatory investigations arising in the ordinary course of business. After consulting with legal counsel, management estimates that these matters will be resolved without material adverse effect on Children’s National’s future financial position or results from operations.

19. Subsequent Events

Subsequent events have been evaluated by management through September 26, 2024, which is the date the consolidated financial statements were issued. On July 24, 2024, Children’s National drew $50 million on the line of credit. There were no other events that require adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Supplementary Consolidating Information

Report of Independent Auditors

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

We have audited the consolidated financial statements of Children's National Medical Center and its subsidiaries as of and for the year ended June 30, 2024 and our report thereon appears on pages 1 and 2 of this document which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary consolidating information as of and for the year ended June 30, 2024 (the "supplemental information") is presented for purposes of additional analysis and is not a required part of the consolidated financial statements, nor is it intended to present the financial position or results of operations of the individual companies. The consolidating information is not intended to present, and we do not express an opinion on, the financial position, results of operations and cash flows of the individual companies. The supplemental 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 supplemental 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 supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 26, 2024

PricewaterhouseCoopers LLP, 655 New York Avenue, NW, Suite 1100, Washington DC 20001
T: (202) 414-1000, www.pwc.com/us

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Balance Sheet
June 30, 2024

	Obligated group														
(in thousands)	Hospital	CNWR	Foundation	Eliminations	Obligated Group Total	CRI	Safekids	CP&A	CSS	PHN/CNHN	HSC	Other	Captive	Eliminations	Consolidated Total
Assets															
Current assets															
Cash and cash equivalents	$ 17,940	$ -	$ -	$ -	$ 17,940	$ -	$ 4	$ -	$ -	$ -	$ 8,407	$ 8,324	$ 10,003	$ -	$ 44,678
Short term investments	22,418	-	-	-	22,418	-	-	-	-	-	-	-	-	-	22,418
Short term assets whose use is limited	1,857	-	-	-	1,857	-	-	-	-	-	328	-	-	-	2,185
Accounts receivable, net	343,783	-	-	-	343,783	-	-	6,269	-	-	21,473	-	-	(22,592)	348,933
Settlements due from third-party payors	12,695	-	-	-	12,695	-	-	-	-	-	9,825	-	-	-	22,520
Contributions receivable, net	-	-	40,816	-	40,816	-	394	-	-	-	-	-	-	-	41,210
Grant receivable	18,685	-	-	-	18,685	18,587	78	-	4,566	-	-	-	-	(48)	41,868
Inventories of supplies	20,716	-	-	-	20,716	-	-	1,024	-	-	124	-	-	-	21,864
Prepaid expenses and other	87,947	161	732	-	88,840	619	212	689	-	535	5,024	141	9,148	(48,195)	57,013
Total current assets	526,041	161	41,548	-	567,750	19,206	688	7,982	4,566	535	45,181	8,465	19,151	(70,835)	602,689
Property and equipment, net	554,962	92,980	74	-	648,016	9,542	-	3,520	-	-	52,528	169,995	-	(5,810)	877,791
Right of use assets, financing	103,597	-	-	-	103,597	-	-	320	-	-	28	-	-	-	103,945
Right of use assets, operating	60,167	-	-	-	60,167	-	-	12,585	-	-	4,239	-	-	-	76,991
Assets whose use is limited	15	-	-	-	15	-	-	-	-	-	-	-	51,444	-	51,459
Investments	1,119,293	-	783,924	(840,623)	1,062,594	41,069	6,227	-	-	-	123,401	-	14,517	(41,070)	1,206,738
Contributions receivable, net	-	-	20,379	-	20,379	-	-	-	-	-	-	-	-	-	20,379
Loan receivable	81,763	-	-	-	81,763	-	-	-	-	-	-	-	-	(68,267)	13,496
Interest in beneficial trusts	-	-	8,980	-	8,980	-	-	-	-	-	-	-	-	-	8,980
Due from affiliates	658,572	-	20,944	(96,109)	583,407	-	-	-	-	-	28,815	8,657	-	(620,879)	-
Other	72,333	-	-	-	72,333	-	-	1,619	-	-	15	1,876	-	(15,826)	60,017
Total noncurrent assets	2,650,702	92,980	834,301	(936,732)	2,641,251	50,611	6,227	18,044	-	-	209,026	180,528	65,961	(751,852)	2,419,796
Total assets	$ 3,176,743	$ 93,141	$ 875,849	$ (936,732)	$ 3,209,001	$ 69,817	$ 6,915	$ 26,026	$ 4,566	$ 535	$ 254,207	$ 188,993	$ 85,112	$ (822,687)	$ 3,022,485
Liabilities and Net Assets															
Current liabilities															
Accounts payable	85,244	637	99	-	$ 85,980	2,559	277	561	176	52	$ 6,583	5,842	2,605	(5,858)	$ 98,777
Accrued salaries and other expenses	152,320	76	984	-	153,380	3,777	168	2,650	978	129	5,145	1,146	-	(1,166)	166,207
Current portion of reserve for claims	41,839	-	-	-	41,839	-	-	-	-	-	-	-	37,449	(37,449)	41,839
Settlements due to third-party payors	12,164	-	-	-	12,164	-	-	-	-	-	765	-	-	-	12,929
Deferred revenue	5,317	2,570	993	-	8,880	17,278	-	-	-	-	-	-	-	(2,061)	24,097
Medical claims payable	-	-	-	-	-	-	-	-	-	-	34,336	-	-	(26,132)	8,204
Current portion of long-term debt	11,803	-	-	-	11,803	-	-	-	-	-	-	-	-	-	11,803
Current portion of financing lease liabilities	11,142	-	-	-	11,142	-	-	196	-	-	27	-	-	-	11,365
Current portion of operating lease liabilities	4,683	-	-	-	4,683	-	-	1,350	-	-	1,735	-	-	-	7,768
Total current liabilities	324,512	3,283	2,076	-	329,871	23,614	445	4,757	1,154	181	48,591	6,988	40,054	(72,666)	382,989
Noncurrent liabilities											-				
Long-term debt	679,369	-	-	-	679,369	-	-	-	-	-	-	18,443	-	-	697,812
Long-term financing lease liabilities	136,711	-	-	-	136,711	-	-	369	-	-	2	-	-	-	137,082
Long-term operating lease liabilities	60,328	-	-	-	60,328	-	-	13,246	-	-	3,666	-	-	-	77,240
Reserve for claims	89,629	-	-	-	89,629	-	-	-	-	-	-	-	13,995	(13,995)	89,629
Due to affiliates	-	96,109	-	(96,109)	-	456,840	1,563	41,903	4,044	9,838	106,691	-	-	(620,879)	-
Other long-term liabilities	51,218	20,950	290	-	72,458	-	-	1,620	-	-	906	68,207	-	(68,269)	74,922
Total noncurrent liabilities	1,017,255	117,059	290	(96,109)	1,038,495	456,840	1,563	57,138	4,044	9,838	111,265	86,650	13,995	(703,143)	1,076,685
Total liabilities	1,341,767	120,342	2,366	(96,109)	1,368,366	480,454	2,008	61,895	5,198	10,019	159,856	93,638	54,049	(775,809)	1,459,674
Net assets (deficit)											-				
Without donor restrictions - controlling interest	1,432,466	(27,201)	438,119	(438,119)	1,405,265	(451,700)	(1,709)	(35,869)	(632)	(9,484)	94,264	68,710	31,063	(5,810)	1,094,098
Without donor restrictions - noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	26,645	-	-	26,645
With donor restrictions	402,510	-	435,364	(402,504)	435,370	41,063	6,616	-	-	-	87	-	-	(41,068)	442,068
Total net assets (deficit)	1,834,976	(27,201)	873,483	(840,623)	1,840,635	(410,637)	4,907	(35,869)	(632)	(9,484)	94,351	95,355	31,063	(46,878)	1,562,811
Total liabilities and net assets (deficit)	$ 3,176,743	$ 93,141	$ 875,849	$ (936,732)	$ 3,209,001	$ 69,817	$ 6,915	$ 26,026	$ 4,566	$ 535	$ 254,207	$ 188,993	$ 85,112	$ (822,687)	$ 3,022,485

The accompanying note is an integral part of the supplementary consolidated information.

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Statement of Operations
Year Ended June 30, 2024

	Obligated Group														
(in thousands)	Hospital	CNWR	Foundation	Eliminations	Obligated Group Total	CRI	Safekids	CP&A	CSS	PHN/CNHN	HSC	Other	Captive	Eliminations	Total
Operating revenue and other support															
Net patient service revenue	$ 1,435,069	$ -	$ -	$ -	$ 1,435,069	$ -	$ 17	$ 32,570	$ -	$ -	$ 33,845	$ -	$ -	$ (31,735)	$ 1,469,766
Capitation revenue	-	-	-	-	-	-	-	-	-	-	188,688	-	-	-	188,688
Grant revenue	35,049	-	-	-	35,049	83,558	353	1,578	25,925	-	-	-	-	(49)	146,414
Other operating revenue	171,899	1,157	150	(3,945)	169,261	1,510	1,605	377	-	3,100	123	6,423	13,593	(61,492)	134,500
Contributions	370	-	15,578	-	15,948	-	1,258	-	-	-	115	-	-	-	17,321
Net assets released from restrictions used for operations	30,868	-	5,361	-	36,229	15,924	5,719	-	5	-	69	-	-	-	57,946
Total operating revenue and other support	1,673,255	1,157	21,089	(3,945)	1,691,556	100,992	8,952	34,525	25,930	3,100	222,840	6,423	13,593	(93,276)	2,014,635
Expenses															
Salaries, wages, and benefits	978,720	2,248	-	-	980,968	74,213	2,586	22,235	21,522	1,956	58,156	-	-	-	1,161,636
Supplies and other	459,319	14,175	-	(3,945)	469,549	56,225	6,366	14,848	4,066	2,950	40,491	107	2,927	(47,186)	550,343
Medical claims expense	-	-	-	-	-	-	-	-	-	-	130,985	-	-	(32,497)	98,488
Depreciation and amortization	97,166	3,518	-	-	100,684	2,517	-	790	-	-	3,953	4,523	-	-	112,467
Provision for insurance	26,027	-	-	-	26,027	67	-	338	-	-	-	-	12,860	(13,593)	25,699
Interest and amortization	27,577	256	-	-	27,833	-	-	26	-	-	343	2,548	-	-	30,750
Development expense	-	-	27,423	-	27,423	-	-	-	-	-	-	-	-	-	27,423
Total expenses	1,588,809	20,197	27,423	(3,945)	1,632,484	133,022	8,952	38,237	25,588	4,906	233,928	7,178	15,787	(93,276)	2,006,806
Operating income (loss)	84,446	(19,040)	(6,334)	-	59,072	(32,030)	-	(3,712)	342	(1,806)	(11,088)	(755)	(2,194)	-	7,829
Non-operating revenues and expenses															
Investment return, net	34,425	-	66,233	-	100,658	-	-	-	-	-	13,068	-	7,154	-	120,880
Other non-operating loss, net	(138)	-	-	-	(138)	-	-	-	-	-	-	-	-	-	(138)
Total non-operating revenues and expenses	34,287	-	66,233	-	100,520	-	-	-	-	-	13,068	-	7,154	-	120,742
Excess (deficit) of revenues over expenses	$ 118,733	$ (19,040)	$ 59,899	$ -	$ 159,592	$ (32,030)	$ -	$ (3,712)	$ 342	$ (1,806)	$ 1,980	$ (755)	$ 4,960	$ -	$ 128,571

The accompanying note is an integral part of the supplementary consolidated information.

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Balance Sheet – The HSC Foundation and Subsidiaries
Year Ended June 30, 2024

(in thousands)	The HSC Foundation	The HSC Pediatric Center	Health Services for Children with Special Needs, Inc.	HSC Home Care, LLC	Eliminiations	Total
Assets						
Current assets						
Cash and cash equivalents	$ 519	$ -	$ 7,888	$ -	$ -	$ 8,407
Short term assets whose use is limited	-	-	328	-	-	328
Accounts receivable, net	-	17,313	-	4,160	-	21,473
Settlements due from third-party payors	-	209	9,616	-	-	9,825
Inventories of supplies	-	124	-	-	-	124
Prepaid expenses and other	26	300	4,620	479	(401)	5,024
Total current assets	545	17,946	22,452	4,639	(401)	45,181
Property and equipment, net	-	42,162	10,323	43	-	52,528
Right of use assets, financing	-	-	28	-	-	28
Right of use assets, operating	-	2,655	1,567	17	-	4,239
Investments	60,972	-	62,429	-	-	123,401
Due from affiliates	25,357	-	-	3,458	-	28,815
Other	-	15	-	-	-	15
Total noncurrent assets	86,329	44,832	74,347	3,518	-	209,026
Total assets	$ 86,874	$ 62,778	$ 96,799	$ 8,157	$ (401)	$ 254,207
Liabilities and Net Assets						
Current liabilities						
Accounts payable	-	1,921	4,643	19	-	$ 6,583
Accrued salaries and other expenses	-	1,391	3,499	255	-	5,145
Settlements due to third-party payors	-	-	765	-	-	765
Medical claims payable	-	-	34,737	-	(401)	34,336
Current portion of financing lease liabilities	-	-	27	-	-	27
Current portion of operating lease liabilities	-	1,199	518	18	-	1,735
Total current liabilities	-	4,511	44,189	292	(401)	48,591
Noncurrent liabilities						
Long-term financing lease liabilities	-	-	2	-	-	2
Long-term operating lease liabilities	-	1,761	1,905	-	-	3,666
Due to affiliates	-	99,864	6,827	-	-	106,691
Other long-term liabilities	906	-	-	-	-	906
Total noncurrent liabilities	906	101,625	8,734	-	-	111,265
Total liabilities	906	106,136	52,923	292	(401)	159,856
Net assets (deficit)						
Without donor restrictions - controlling interest	85,968	(43,445)	43,876	7,865	-	94,264
With donor restrictions	-	87	-	-	-	87
Total net assets (deficit)	85,968	(43,358)	43,876	7,865	-	94,351
Total liabilities and net assets (deficit)	$ 86,874	$ 62,778	$ 96,799	$ 8,157	$ (401)	$ 254,207

The accompanying note is an integral part of the supplementary consolidated information.

Children's National Medical Center and Subsidiaries
Supplementary Consolidating Statement of Operations – The HSC Foundation and Subsidiaries
Year Ended June 30, 2024

(in thousands)	The HSC Foundation	The HSC Pediatric Center	Health Services for Children with Special Needs, Inc.	HSC Home Care, LLC	HSC Eliminations	Total
Operating revenue and other support						
Net patient service revenue	$ -	$ 33,381	$ -	$ 8,395	$ (7,931)	$ 33,845
Capitation revenue	-	-	188,688	-	-	188,688
Other operating revenue	-	137	-	400	(414)	123
Contributions	-	111	-	4	-	115
Net assets released from restrictions used for operations	-	69	-	-	-	69
Total operating revenue and other support	-	33,698	188,688	8,799	(8,345)	222,840
Expenses						
Salaries, wages, and benefits	-	24,426	25,118	8,612	-	58,156
Supplies and other	-	14,389	24,258	1,858	(14)	40,491
Medical claims expense	-	-	139,316	-	(8,331)	130,985
Depreciation and amortization	2	2,983	926	42	-	3,953
Interest and amortization	55	287	1	-	-	343
Total expenses	57	42,085	189,619	10,512	(8,345)	233,928
Operating loss	(57)	(8,387)	(931)	(1,713)	-	(11,088)
Non-operating revenues and expenses						
Investment return, net	7,378	15	5,675	-	-	13,068
Total non-operating revenues and expenses	7,378	15	5,675	-	-	13,068
Excess (deficit) of revenues over expenses	$ 7,321	$ (8,372)	$ 4,744	$ (1,713)	$ -	$ 1,980

The accompanying note is an integral part of the supplementary consolidated information.

1. Basis of Presentation—Consolidating Supplementary Information

The consolidating supplementary information (“consolidating information”) presented on pages 41-44 was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and results of operations, changes in net assets and cash flows of the individual companies within Children’s National and is not a required part of the consolidated financial statements. The individual companies within Children’s National as presented within the consolidating information are disclosed within Note 1 to the consolidated financial statements.