Children's Healthcare of Atlanta Inc. and Affiliates

Interim Financial Statements
June 30, 2019

Children's
Healthcare of Atlanta

CHILDREN'S HEALTHCARE OF ATLANTA, INC. AND AFFILIATES

Unaudited Consolidated Financial Statements for the Six Months Ended June 30, 2019 and 2018 and Audited Consolidated Balance Sheet for the Year Ended December 31, 2018.

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Children's Healthcare of Atlanta, Inc. and Affiliates
Certificate of Compliance

I certify that the attached financial statements for the six months ended June 30, 2019 have been prepared on a basis consistent with that of previous periods, and subject to year-end adjustments, are consistent with generally accepted accounting principles.

Ruth Fowler
Chief Financial Officer

8/14/19
Date

Children's Healthcare of Atlanta, Inc. and Affiliates
CONSOLIDATED BALANCE SHEETS
(Dollars In Thousands)

	June 30, 2019 (unaudited)	December 31, 2018 (audited)
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 263,740	$ 230,691
Assets Whose Use Is Limited	58,085	58,085
Patient Accounts Receivable, Net	223,547	208,327
Contributions Receivable, Net	21,350	24,138
Other Receivables	5,850	5,269
Supplies and Prepaid Expenses	45,623	45,090
Total Current Assets	618,195	571,600
ASSETS WHOSE USE IS LIMITED	4,816,272	4,386,213
OTHER NONCURRENT ASSETS:		
Right-Of-Use Operating Lease Assets	58,866	-
Deposits and Other Assets	8,212	8,411
Noncurrent Contributions Receivable, Net	37,704	31,587
Total Other Noncurrent Assets	104,782	39,998
PROPERTY AND EQUIPMENT, NET (Note 1)	1,011,815	942,924
BENEFICIAL INTERESTS IN TRUSTS	162,027	160,270
TOTAL ASSETS	$ 6,713,091	$ 6,101,005
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current Maturities of Long-Term Debt	$ 11,528	$ 11,551
Current Portion of Right-Of-Use Operating Lease Obligations (Note 1)	13,943	-
Long-Term Debt Classified as Current (Note 4)	58,085	58,085
Current Research Pledges (Note 1)	7,799	16,354
Accounts Payable and Other	157,356	161,974
Salaries, Related Taxes, and Benefits	76,465	73,454
Accrued Interest	1,650	2,114
Total Current Liabilities	326,826	323,532
LONG-TERM DEBT, Net of Portion Classified as Current (Notes 1 and 6)	554,157	554,207
RIGHT-OF-USE OPERATING LEASE OBLIGATIONS (Note 1)	46,598	-
NONCURRENT RESEARCH PLEDGES (Note 1)	47,682	47,682
OTHER NONCURRENT LIABILITIES	125,990	101,162
Total Noncurrent Liabilities	774,427	703,051
NET ASSETS:		
Without Donor Restriction	5,039,309	4,525,022
With Donor Restriction	563,410	541,517
Noncontrolling Interests in Surgery Center	9,119	7,883
Total Net Assets	5,611,838	5,074,422
TOTAL LIABILITIES AND NET ASSETS	$ 6,713,091	$ 6,101,005

Children's Healthcare of Atlanta

Children's Healthcare of Atlanta, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF OPERATIONS WITHOUT DONOR RESTRICTIONS

(Dollars In Thousands)

Three Months Ended June 30, 2019 (unaudited)	Three Months Ended June 30, 2018 (unaudited)		Six Months Ended June 30, 2019 (unaudited)	Six Months Ended June 30, 2018 (unaudited)
		Operating Revenues and Support:		
$ 447,970	$ 408,503	Net Patient Service Revenue	$ 864,809	$ 802,173
12,066	15,849	Other Operating Revenue	24,591	29,556
4,508	4,798	Unrestricted Contributions	6,022	6,408
7,597	4,900	Investment Return Designated for Operations	14,896	9,305
17,446	14,040	Net Assets Released from Restriction for Operations	30,431	27,112
489,587	448,090	Total Operating Revenues and Support	940,749	874,555
		Operating Expenses:		
205,082	195,214	Salaries and Wages	408,493	390,026
49,530	45,480	Employee Benefits	98,651	90,176
44,712	42,361	Purchased Services	87,604	82,359
50,195	46,704	Supplies	100,041	93,382
29,353	26,979	Other Expenses	55,853	53,139
6,232	6,172	Interest Expense	12,840	11,757
22,265	18,939	Depreciation	44,315	36,181
407,369	381,849	Total Operating Expense	807,797	757,020
82,218	66,241	**Operating Income**	132,952	117,535
110,857	90,897	Investment Income and Other	130,206	134,684
132,485	(83,841)	Unrealized Investment (Loss) Gain	273,516	(107,104)
(11,700)	4,868	Net Change in Fair Value of Interest Rate Swaps (Note 1 & 4)	(20,067)	17,173
313,860	78,165	**Revenues Over Expenses**	516,607	162,288
(2,764)	(2,456)	Income Attributable to Noncontrolling Interests (Note 1)	(4,532)	(4,684)
$ 311,096	$ 75,709	**Revenues Over Expenses Attributable to Children's Healthcare of Atlanta, Inc. and Affiliates**	$ 512,075	$ 157,605

Children's Healthcare of Atlanta

Children's Healthcare of Atlanta, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars In Thousands)

	Six Months Ended June 30,	
	2019 (unaudited)	2018 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	$ 537,416	$ 145,906
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	44,315	36,181
Bond Issuance Cost Amortization	106	109
Bond Premium Amortization	(15)	(49)
Net Unrealized Losses (Gains) on Investments	(273,516)	107,104
Realized Gains on Sale of Marketable Investments	(89,740)	(166,456)
Net Change in Fair Value of Interest Rate Swaps	20,067	(17,173)
Equity in (Income) Loss of Unconsolidated Investments	(18,979)	62,250
Restricted Contributions and Investment Income	(52,799)	(16,927)
Distributions to Noncontrolling Interests in Surgery Center and Other	4,532	8,379
Changes in Assets and Liabilities:		
Patient Accounts Receivable and Other Receivables	(15,795)	(6,094)
Supplies and Prepaid Expenses	(534)	(2,934)
Other Noncurrent Assets	2,625	(4,427)
Accounts Payable and Accrued Liabilities	(10,626)	(12,690)
Other Noncurrent Liabilities	1,019	(4,414)
Total Adjustments	(389,340)	(17,141)
Net Cash Provided by Operating Activities	148,076	128,765
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property Additions	(113,206)	(113,855)
Net Proceeds (Purchases) of Assets Whose Use is Limited	(47,824)	8,441
Net Cash Used in Investing Activities	(161,030)	(105,414)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of Long-Term Debt	(164)	(158)
Cash Proceeds from Restricted Contributions and Investment Income	49,464	27,914
Distributions to Noncontrolling Interests in Surgery Center	(3,948)	(1,999)
Proceeds from Sale of Shares to Noncontrolling Shareholders of Surgery Center	651	-
Net Cash Provided by Financing Activities	46,003	25,757
NET DECREASE IN CASH AND CASH EQUIVALENTS	33,049	49,108
CASH AND CASH EQUIVALENTS - Beginning of period	230,691	130,491
CASH AND CASH EQUIVALENTS - End of period	$ 263,740	$ 179,599

Children's Healthcare of Atlanta

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

a. Egleston Children's Hospital at Emory University, Inc. ("Egleston") operates as Children's Healthcare of Atlanta at Egleston and provides inpatient and outpatient pediatric health care services. Egleston is a member of the Obligated Group.

b. Scottish Rite Children's Medical Center, Inc. ("Scottish Rite") operates as Children's Healthcare of Atlanta at Scottish Rite and provides inpatient and outpatient pediatric health care services. Scottish Rite is a member of the Obligated Group.

c. Egleston Affiliated Services, Inc. operates as Children's Affiliated Services and provides immediate and urgent pediatric health care services. Egleston Affiliated Services, Inc. is a member of the Obligated Group.

d. Egleston Pediatric Group, Inc. operates as Children's Pediatric Group and provides pediatric physician services. Egleston Pediatric Group, Inc. is a member of the Obligated Group.

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

f. Emory-Egleston Children's Heart Center, Inc. operates as Sibley Cardiology and provides pediatric cardiac physician services. Emory-Egleston Children's Heart Center, Inc. is not a member of the Obligated Group.

g. The Children's Health Network, LLC is a physician hospital organization. The Children's Health Network is not a member of the Obligated Group.

h. The Children's Care Network is a clinically integrated network. The Children's Care Network is not a member of the Obligated Group.

i. HSOC, Inc. ("HSOC") provides management, administrative, and related services to Hughes Spalding Children's Hospital ("Hughes Spalding"), a pediatric hospital wholly owned by Grady Health System, Inc. ("Grady"). Pursuant to a management agreement, HSOC may be required to provide financial support. HSOC may terminate the management agreement with a 60 day notice to Grady. HSOC is not a member of the Obligated Group.

j. Marcus Autism Center, Inc. is a provider of outpatient therapy and counseling services for children with autism and other behavioral disorders. Marcus Autism Center, Inc. is not a member of the Obligated Group.

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

l. Children's Healthcare of Atlanta Affiliations, LLC is a special purpose entity for health system affiliation transactions. Children's Healthcare of Atlanta Affiliations, LLC is not a member of the Obligated Group.

m. Pediatric Informatics, LLC is a special purpose entity for information technology services provided to other health care systems. Pediatric Informatics, LLC is not a member of the Obligated Group.

n. Children's Healthcare of Atlanta Surgery Center at Meridian Mark Plaza, LLC ("Surgery Center") is a 51% joint venture with physicians to operate an outpatient surgery center. Surgery Center is not a member of the Obligated Group.

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

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

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

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

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

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

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

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

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

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

Medicaid and Other Governmental Programs—Payments for inpatient services rendered to Medicaid patients are based on prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for outpatient services rendered under this program are generally based on the reasonable cost of providing care or fee schedules. Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. Children's recognizes that net patient service revenue and patient accounts receivable from government agencies are significant to operations.

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

Children's recognizes patient service revenue for patients that do not qualify for charity care based on standard rates for services provided. A significant portion of the patients that do not qualify for charity care will be unable or unwilling to pay for services provided. Thus, Children's records a provision for doubtful accounts related to these patients in the period the services are provided.

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

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

Research Pledges—To further its mission of encouraging scientific investigation into the medical problems of children, Children's periodically makes irrevocable research funding commitments to third parties. These irrevocable research commitments were recorded as a component of purchased services in the year of commitment.

Income Taxes—Children's is primarily composed of organizations that have been recognized by the Internal Revenue Service as tax exempt under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying consolidated statements of operations. Sibley Cardiology is a taxable entity and the provision for income taxes was not material for the periods presented.

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

Recent Accounting Pronouncements—In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which requires lessees recognize all leases on the balance sheet, with the exception of leases with terms less than a year. A lease liability will be recorded for the obligation of a lessee to make lease payments arising from a lease. A right-of-use asset will be recorded which represents the lessee's right to use, or to control the use of, a specified asset for a lease term. Children's adopted ASU 2016-02 effective January 1, 2019 using the modified retrospective approach method. Children's utilizes certain practical expedients including (i) not being required to reassess whether any expired or existing contracts are or contain leases; (ii) not being required to reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as operating leases in accordance with Topic 842 will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with Topic 842 will be classified as finance leases); and (iii) not being required to reassess initial direct costs for any existing leases.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)*, which clarifies the scope and the accounting guidance for contributions received and contributions made. ASU No. 2018-08 provides guidance on characterizing grants and similar contracts as reciprocal exchanges or contracts and distinguishing between conditional and unconditional contributions. The guidance provided in ASU No. 2018-08 is effective for the fiscal year beginning January 1, 2019, and requires the modified prospective approach for transition. Children's is currently evaluating the provisions of ASU No. 2018-08 to determine the impact on its consolidated financial statements and related disclosures.

2. NET ASSETS WITH RESTRICTIONS

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

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

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

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

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

Children's receives restricted contributions on behalf of strategic partners for specific purposes. Such restricted contributions are recorded as contributions to net assets with donor restriction and are reclassified from restriction when the amounts are sent to the intended recipient.

3. COMMUNITY BENEFIT AND CHARITY CARE

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

Unreimbursed costs for charity care and Medicaid services, a component of Community Benefit, is calculated using a cost-to-charge ratio times the amount of unreimbursed charges, net of funding from the state of Georgia for neonatal care, and other funding provided to defray these costs.

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of Children's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, Children's invests cash in excess of daily requirements in short-term investments.

5. LONG-TERM DEBT

A summary of long-term debt as of June 30, 2019 and December 31, 2018 is as follows (in thousands):

	2019	2018
2008 Certificates & Bonds — 2008 variable rate revenue anticipation certificates and bonds due July 2042. Interest rates range from .91% to 1.88% for the year ended December 31, 2018. Mandatory sinking fund redemption beginning July 2009.	$ 175,845	$ 175,845
2009 Certificates & Bonds — 2009 fixed rate revenue anticipation certificates and bonds due November 2039. Interest rates range from 4.00% to 5.25%, payable semiannually-net of unamortized discount. Mandatory sinking fund redemption beginning November 2024.	230,771	230,786
2017 Certificates & Bonds - 2017 variable rate revenue anticipation certificates and bonds due July 2051. Interest rates range from 1.50% to 2.45% for the year ended December 31, 2018.	220,000	220,000
2013 Surgery Center Commercial Note—term note payable to bank due March 2021. Interest rate of 3.5%. Principal and interest payable monthly.	604	768
Subtotal	627,220	627,399
Less bond issuance costs	(3,450)	(3,556)
Less current maturities of long-term debt	(11,528)	(11,551)
Less long-term debt classified as current due to terms of standby purchase agreements	(58,085)	(58,085)
Long-term debt — net of portion classified as current.	$ 554,157	$ 554,207

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

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

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

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

Interest Rate Swap Agreements—In connection with certain bond issues, Children's entered into interest rate swap agreements with three banks effectively converting Children's interest rate exposure on a portion of this debt from a variable to a fixed rate. Children's does not follow hedge accounting for these interest rate swaps. Children's has recorded a liability related to these interest rate swaps in other noncurrent liabilities in the accompanying consolidated balance sheets. The change in fair value of these interest rate swaps is included in revenues over expenses in the accompanying consolidated statements of operations.

6. SUBSEQUENT EVENTS

On August 2, 2019, Children's defeased and redeemed 2008 Certificates & Bonds of $108,360,000; 2009 Certificates & Bonds of $194,520,000; and 2017 Certificates & Bonds of $1,400,000.

On August 20, 2019, the Brookhaven Development Authority ("Brookhaven Authority") issued approximately $736,765,000 in fixed rate tax-exempt revenue bonds and $108,885,000 in variable rate tax-exempt revenue bonds; the DeKalb Authority issued approximately $81,255,000 in fixed rate tax-exempt revenue anticipation certificates and the Fulton Authority issued approximately $75,250,000 in fixed rate tax-exempt revenue bonds (collectively, the "2019 Certificates & Bonds") pursuant to a trust indenture by and among the Brookhaven Authority, the DeKalb Authority and the Fulton Authority and certain investment banks. The proceeds were loaned to Children's pursuant to loan agreements between the Brookhaven Authority and Children's, the DeKalb Authority and Children's and the Fulton Authority and Children's and will be used to fund the North Druid Hills medical campus and refund certain 2009 Bonds & Certificates.

The variable rate 2019 Certificates & Bonds are remarketed on a weekly basis and the bondholders have the ability to tender any or all of the bonds at each remarketing date. Children's has a standby bond purchase agreement (SBPA) with a financial institution to serve as security for the payment of the variable rate 2019 Certificates & Bonds. In the event bondholders elect to tender any or all of the variable rate 2019 Certificates &

Bonds for purchase and the revenue bonds are not able to be remarketed, the SBPA is utilized to purchase the revenue bonds. Any amounts outstanding on the SBPA are repayable by Children's over a three year term.

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Children's Healthcare of Atlanta, Inc. and Affiliates
SELECTED UTILIZATION AND FINANCIAL INFORMATION

Summary of Historical Utilization

The following table sets forth certain utilization information relating to the hospitals for the fiscal years ended December 31, 2016, 2017 and 2018 and six months ended June 30, 2018 and 2019.

	Fiscal Year Ended December 31,			Six Months Ended June 30,	
	2016	2017	2018	2018	2019
Licensed Beds (1)	551	599	614	614	614
Total Discharges	26,432	25,945	25,974	13,133	12,725
Average Daily Census (includes Observation Cases)	473	492	498	503	488
Average Length of Stay (Days)	6.0	6.3	6.3	6.3	6.2
Patient Days	158,414	163,240	163,099	82,210	79,369
Observation Cases	14,631	16,146	18,844	8,791	9,024
Occupancy (Includes Observation Cases)	86%	82%	81%	82%	80%
Emergency Room Visits	175,625	173,273	179,490	90,537	88,665
Inpatient Surgeries	9,656	8,974	8,659	4,499	4,181
Outpatient Surgeries	33,125	33,837	34,674	17,362	17,938
Total Surgeries	42,781	42,811	43,333	21,861	22,119

(1) Weighted licensed beds. Scottish Rite licensed beds increased in 2018 by 15. Egleston licensed beds remained unchanged from 2017.

Children's Healthcare of Atlanta

Children's Healthcare of Atlanta, Inc. and Affiliates
SELECTED UTILIZATION AND FINANCIAL INFORMATION

Payor Mix

The following table presents percentage of gross patient service revenues by payor class for the fiscal years ended December 31, 2016, 2017 and 2018 and six months ended June 30, 2018 and 2019. [(1)]

	Fiscal Year Ended December 31,			Six Months Ended June 30,	
Payor Class	2016	2017	2018	2018	2019
Medicaid & Medicare [(2)]	56.8%	58.2%	57.6%	58.6%	57.9%
Managed Care	40.3%	38.9%	39.5%	38.8%	39.4%
Commercial	0.7%	0.5%	0.6%	0.7%	0.5%
Self Pay	2.2%	2.4%	2.3%	2.0%	2.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

[(1)] Payor mix excludes Emory-Egleston Children's Heart Center.

[(2)] Medicare comprises less than one perecent of gross patient service revenues.

Children's Healthcare of Atlanta, Inc. and Affiliates

SELECTED UTILIZATION AND FINANCIAL INFORMATION

Certain Financial Ratios

The following table sets forth days cash on hand for fiscal years 2016, 2017 and 2018 and for six months ended June 30, 2018 and 2019 for Children's and its consolidated affiliates. There can be no assurance that Children's operations will generate comparable ratios in future years.

Days Cash on Hand (Dollars In Thousands)	Fiscal Year Ended December 31,			Six Months Ended June 30,	
	2016	2017	2018	2018	2019
Unrestricted Cash and Investments	$ 3,689,157	$ 4,479,392	$ 4,342,869	$ 4,595,556	$ 4,791,058
Total Operating Expense	1,366,694	1,459,020	1,557,017	757,020	807,797
Less Non Cash Expense:					
Depreciation and Amortization	63,175	67,925	81,000	36,241	44,406
Net Operating Expense	1,303,519	1,391,095	1,476,017	720,779	763,391
Average Daily Operating Expense[(1)]	$3,561	$3,811	$4,044	$3,982	$4,218
Days Cash on Hand	1,036	1,175	1,074	1,154	1,136

[(1)] Equal to net operating expense divided by 366 days for fiscal year 2016, 365 days for fiscal years 2017 and 2018 and 181 days for six months ended June 30, 2018 and 2019, respectively.

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