Report of Independent Auditors and
Consolidated Financial Statements

Valley Children's Healthcare

September 30, 2023 and 2022

MOSSADAMS

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Report of Independent Auditors

The Board of Trustees
Valley Children's Healthcare

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Valley Children's Healthcare, which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Valley Children's Healthcare as of September 30, 2023 and 2022, and the results of its operations 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Valley Children's Healthcare and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 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 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 Valley Children's Healthcare's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the 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 auditor's 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 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 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 Valley Children's Healthcare'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 Valley Children's Healthcare'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.

Moss Adams LLP

San Francisco, California
December 7, 2023

Consolidated Financial Statements

Valley Children's Healthcare
Consolidated Balance Sheets
September 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 33,840,225	$ 31,789,106
Patient accounts receivable, net	110,266,985	118,552,608
Inventories	15,161,663	14,025,643
Medi-Cal disproportionate funds receivable	10,436,424	9,251,166
Assets whose use is limited, current portion	8,914,066	8,530,794
Prepaid expenses and deposits	14,292,793	15,672,899
Pledges receivable, current portion	1,289,187	1,015,473
Hospital Fee Program receivable	159,584,178	95,360,420
Other current assets	16,013,411	27,390,082
Total current assets	369,798,932	321,588,191
ASSETS WHOSE USE IS LIMITED, net of current portion	1,286,803,291	1,318,049,398
PLEDGES RECEIVABLE, net of current portion	2,286,277	2,124,400
PROPERTY, PLANT, AND EQUIPMENT, net	499,318,101	457,340,176
OTHER ASSETS	123,275,616	95,224,153
Total assets	$ 2,281,482,217	$ 2,194,326,318
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 42,308,612	$ 47,796,176
Accrued payroll and related liabilities	65,443,896	64,705,954
Interest payable	499,007	515,642
Long-term debt, current portion	8,430,000	8,030,000
Malpractice liability reserve, current portion	4,037,103	1,589,970
Total current liabilities	120,718,618	122,637,742
LONG-TERM DEBT, net of current portion	238,547,204	246,705,818
ACCRUED PENSION LIABILITY	513,027	758,028
OTHER LONG-TERM LIABILITIES	20,448,564	18,553,979
MALPRACTICE LIABILITY RESERVE, net of current portion	8,512,420	8,808,343
Total liabilities	388,739,833	397,463,910
NET ASSETS		
Without donor restrictions:		
Attributable to Valley Children's Healthcare	1,828,588,095	1,732,445,774
Noncontrolling interest	(934,403)	(764,553)
With donor restrictions	65,088,692	65,181,187
Total net assets	1,892,742,384	1,796,862,408
Total liabilities and net assets	$ 2,281,482,217	$ 2,194,326,318

See accompanying notes.

Valley Children's Healthcare
Consolidated Statements of Operations
Years Ended September 30, 2023 and 2022

	2023	2022
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	$ 784,395,742	$ 1,065,140,913
Other revenue	55,425,111	76,345,886
Net assets released from restrictions for operating purposes	10,887,395	11,386,929
Total revenues and other support	850,708,248	1,152,873,728
EXPENSES		
Salaries and wages	344,981,660	325,389,493
Employee benefits	141,854,862	133,125,063
Supplies	116,010,161	119,053,135
Professional fees	63,798,380	51,844,660
Purchased services	44,696,967	43,582,893
Insurance, taxes, and licenses	9,910,774	11,239,087
Utilities	9,205,471	8,482,466
Rents	6,492,723	6,971,595
Depreciation and amortization	40,483,159	37,691,229
Interest	10,289,834	11,315,701
Provision for bad debts	47,500	2,100,407
Quality assurance fee	38,061,845	67,729,265
Other	16,365,474	14,813,539
Total expenses	842,198,810	833,338,533
Operating income	8,509,438	319,535,195
OTHER GAINS AND LOSSES		
Investment income (loss) and net unrealized gains (losses)	88,152,656	(115,976,854)
Other nonoperating losses	(551,989)	(330,620)
EXCESS OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES	96,110,105	203,227,721

See accompanying notes.

Valley Children's Healthcare
Consolidated Statements of Operations (Continued)
Years Ended September 30, 2023 and 2022

	2023	2022
LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	169,850	278,158
EXCESS OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES ATTRIBUTABLE TO VALLEY CHILDREN'S HEALTHCARE	96,279,955	203,505,879
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	-	(177,995)
CHANGES IN VALUE OF GIFT ANNUITY	3,124	(12,134)
OTHER	(431,253)	-
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF LONG-TERM ASSETS	290,495	726,146
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS ATTRIBUTABLE TO VALLEY CHILDREN'S HEALTHCARE	96,142,321	204,041,896
DEFICIENCY OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(169,850)	(278,158)
Decrease in net assets without donor restrictions attributable to noncontrolling interest	(169,850)	(278,158)
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 95,972,471	$ 203,763,738

See accompanying notes.

Valley Children's Healthcare
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2023 and 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of revenues, other support, and other gains over expenses attributable to Valley Children's Healthcare	$ 96,279,955	$ 203,505,879
Pension-related changes other than net periodic pension cost	-	(177,995)
Changes in value of gift annuity	3,124	(12,134)
Other	(431,253)	-
Net assets released from restrictions for purchase of long-term assets	290,495	726,146
Increase in net assets without donor restrictions attributable to Valley Children's Healthcare	96,142,321	204,041,896
DEFICIENCY OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(169,850)	(278,158)
Decrease in net assets without donor restrictions attributable to noncontrolling interest	(169,850)	(278,158)
Increase in net assets without donor restrictions	95,972,471	203,763,738
NET ASSETS WITH DONOR RESTRICTIONS		
Gifts, bequests, and grants	6,442,712	22,120,352
Investment income (loss) and net realized and unrealized gains (losses) on investments	4,211,430	(4,720,494)
Other	431,253	-
Net assets released from restrictions for operating purposes	(10,887,395)	(11,386,929)
Net assets released from restrictions for purchase of long-term assets	(290,495)	(726,146)
(Decrease) increase in net assets with donor restrictions	(92,495)	5,286,783
INCREASE IN NET ASSETS	95,879,976	209,050,521
NET ASSETS, beginning of year	1,796,862,408	1,587,811,887
NET ASSETS, end of year	$ 1,892,742,384	$ 1,796,862,408

See accompanying notes.

Valley Children's Healthcare
Consolidated Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 95,879,976	$ 209,050,521
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	40,483,159	37,691,229
Amortization of bond issuance costs	271,386	298,184
Unrealized and realized (gains) losses on investments	(52,080,401)	132,172,433
Pension-related changes other than net periodic pension cost	-	177,995
Provision for bad debts	47,500	2,100,407
(Gain) Loss on sale of property, plant, and equipment	(205,203)	36,388
Contributions received for long-term purposes	(122,770)	(1,129,184)
Loss on impairment of assets	6,866	53,999
Changes in operating assets and liabilities:		
Patient accounts receivable	8,285,623	6,444,169
Medi-Cal disproportionate funds receivable	(1,185,258)	2,818,683
Inventories, prepaid expenses and deposits, pledges receivable, hospital fee program receivable and other assets	(81,390,484)	(1,788,157)
Accounts payable and accrued expenses, accrued payroll and related liabilities, accrued pension liability, interest payable, long-term liabilities, and malpractice liability reserve	(737,891)	(255,698,181)
Net cash provided by operating activities	9,252,503	132,228,486
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of assets whose use is limited	(385,498,714)	(374,011,731)
Proceeds from sale of assets whose use is limited	472,040,358	167,686,255
Purchases of property, plant, and equipment	(82,452,474)	(77,130,086)
Proceeds from sale of property, plant, and equipment	215,084	19,814
Net cash provided by (used in) investing activities	4,304,254	(283,435,748)

See accompanying notes.

Valley Children's Healthcare
Consolidated Statements of Cash Flows (Continued)
Years Ended September 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	$ (8,030,000)	$ (7,645,000)
Contributions received for long-term purposes	122,770	1,129,184
Net cash used in financing activities	(7,907,230)	(6,515,816)
Net increase (decrease) in cash and cash equivalents	5,649,527	(157,723,078)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	32,959,077	190,682,155
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 38,608,604	$ 32,959,077
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest, net of amount capitalized	$ 10,035,095	$ 12,289,350
Cash, cash equivalents, and restricted cash, end of year, are comprised of the following:		
Cash and cash equivalents	$ 33,840,225	$ 31,789,106
Assets whose use is limited, current portion	484,066	500,794
Assets whose use is limited, net of current portion	4,284,313	669,177
Cash, cash equivalents, and restricted cash, end of year	$ 38,608,604	$ 32,959,077

See accompanying notes.

Note 1 – Description of Organization and Summary of Significant Accounting Policies

Organization – The accompanying consolidated financial statements include financial information of Valley Children's Healthcare (the "Member"), Valley Children's Hospital (the "Hospital"), Valley Children's Healthcare Foundation (the "Foundation"), Valley Children's Medical Group (the "Medical Foundation"), Valley Children's Specialty Medical Group (the "Specialty Medical Group"), Valley Children's Primary Care Group (the "Primary Care Group"), Herndon Temperance LLC, Valley Children's Holdings I LLC, Compass Health Administrators LLC, and Valley Children's Insurance Company LLC (the "Captive"). These entities are referred to collectively herein as the "Network."

The Member, a not-for-profit parent corporation, was established to provide strategic planning and governance for Valley Children's integrated delivery network which includes the Hospital, the Foundation, and the Medical Foundation.

The Hospital is a not-for-profit corporation located in Madera, California. The state-of-the-art children's hospital offers highly specialized medical and surgical services as Central California's only regional referral center for children. The Hospital has 358 licensed beds with 330 at its main campus and 28 at its three satellite neonatal locations.

The Foundation is a not-for-profit corporation, which was formed to receive and maintain gifts of money and property and subsequently distribute those monies and properties to the Member, the Hospital, and the Medical Foundation.

The Medical Foundation is a not-for-profit corporation that was established to enhance the well-being of Central California's children and adults with diseases, disorders, and other health problems of pediatric origin. The Medical Foundation supports and furthers the purposes of Valley Children's Healthcare by owning and operating pediatric and obstetrical medical clinic sites and partnering with other healthcare providers to provide access to pediatricians, pediatric specialists, and maternal fetal medicine physicians throughout Central California. The Medical Foundation maintains an affiliation agreement with the Hospital and provides physician coverage through the Specialty Medical Group and the Primary Care Group.

The Specialty Medical Group is a for-profit professional services medical corporation located in Madera, California, which employs and affiliates with over 150 physicians who primarily provide services at the Hospital and the Medical Foundation clinic and partner sites.

The Primary Care Group is a for-profit professional services medical corporation, which employs and contracts with over 50 physicians and advanced practice practitioners to provide primary care, OB/GYN, and pediatric hospitalist services to the Medical Foundation and other healthcare provider locations throughout the Network's service area.

Herndon Temperance LLC was formed in fiscal year 2016 to acquire land and construct a medical office building and other medical facilities to be leased to the Medical Foundation and other tenants.

Valley Children's Holdings I LLC and Compass Health Administrators LLC were formed in fiscal year 2017 to invest in and operate a third-party administrative services ("TPA") company. The Member holds the membership interest in Valley Children's Holdings I LLC, which holds the controlling member interest in Compass Health Administrators LLC.

Valley Children's Insurance Company LLC was formed in fiscal year 2019 and is licensed by the State of Hawaii as a captive insurance company to insure the professional liability, the employee benefit program liability, and the general liability risk of the Member, Hospital, Medical Foundation, Foundation, and Herndon Temperance LLC.

All significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Basis of presentation – The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and changes therein have been classified and are reported as follows:

Net assets without donor restrictions – Net assets without donor restrictions represent those resources that are not subject to donor-imposed stipulations. The only limits on net assets without donor restrictions are broad limits resulting from the nature of the Network and the purposes specified in its Articles of Incorporation or Bylaws and limits resulting from contractual agreements, if any.

Net assets with donor restrictions – Net assets with donor restrictions represent contributions that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, in that they can be fulfilled by actions of the Network pursuant to those stipulations or by the passage of time. Other restrictions are permanent in nature, in that they must be maintained permanently by the Network. The Board of Trustees has interpreted California's enacted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of donations held in perpetuity absent explicit donor stipulations to the contrary. As a result of this interpretation, the Network classifies as net assets with donor restrictions: (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the fund to perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit the Network to use all or part of the investment return on these assets, and the donor agreements allow the Network to appropriate for distribution each year 5% of its endowment fund's prior year average fair value.

Net assets with donor restrictions are commingled with the Network's other investments, and returns are allocated to the restricted fund on a pro-rata basis. Unrealized gains and investment income allocated to the restricted fund are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Network in a manner consistent with the standard of prudence prescribed by UPMIFA.

Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Contributions with donor restrictions are recorded as restricted revenue when received and, when the restriction expires, the net assets are shown as released from restriction on the consolidated statements of operations. Contributions for which restrictions are satisfied in the same period are recorded as contribution revenue without donor restrictions. Investment income on net assets with donor restrictions is recorded within that respective net asset category and, when the restriction expires, the net assets are shown as released from restriction.

Use of estimates – The preparation of 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 and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include cash in checking, savings, and money market funds. The Network regularly maintains balances in depository accounts in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. If the financial institutions with whom the Network does business were to be placed into receivership with the Federal Deposit Insurance Corporation, the Network may be unable to access the cash it has on deposit with the institutions. If the Network was unable to access its cash and cash equivalents as needed, the Network's financial position and ability to operate its business could be adversely affected.

Inventories – Inventories, which consist primarily of hospital and physician practice operating supplies and pharmaceuticals, are reported at the lower of cost, determined by the first-in, first-out method, or net realizable value.

Assets whose use is limited – Assets whose use is limited include the following:

Board-designated cash and investments – Cash and investments set aside by the Board of Trustees for specific operating and general reserves, strategic investment, and future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Assets held by trustee under bond indenture – Funds related to the Certificates of Participation, Series 1995 and Series 1998, and Taxable Bonds, Series 2018A (see Note 7).

Assets whose use is limited include cash and cash equivalents, common and preferred stocks, mutual funds, exchange-traded funds ("ETFs"), government bonds, investment contracts with insurance companies, limited partnership investments, private capital funds, and hedge funds. Investments in common and preferred stocks, mutual funds, ETFs, and government bonds are stated at fair value based on quoted market prices. Investment contracts with insurance companies are recorded at contract value, which approximates market value. Investments in limited partnerships, private capital funds, and hedge funds are recorded based on net asset values. Net asset values are provided by trustees and general partners and are based on estimated fair values of the underlying portfolio assets. Investments in limited partnerships are generally not transferable and are subject to certain liquidation limitations. Investment earnings (including realized gains and losses on investments, interest, dividends, and unrealized gains and losses without donor restrictions) are included in excess of revenues, other support, and other gains (losses) over expenses.

Investment objectives are to preserve principal for operating cash and capital requirements, to maintain purchasing power, and to grow fund assets to improve the Network's financial well-being.

Impairment of long-lived assets – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell or dispose.

Pledges receivable – Unconditional promises to give (pledges) are recorded as receivables and revenue and require the Network to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the pledges are received, and recorded in their respective net asset category. Amortization of the discount is included in contribution revenue in the consolidated statements of operations and changes in net assets. Conditional promises to give are not recorded as revenue until the conditions have been substantially met. Pledges are recorded at the discounted net present value of the future cash flows, using a discount rate of 5% in 2023 and 2022. At September 30, 2023, unconditional promises of $1,289,187 and $3,151,000 are expected to be realized in less than one year and in one to nine years, respectively. At September 30, 2023, pledges receivable, net of current portion is presented net of discounts and estimated uncollectible amounts of $859,723 and $5,000, respectively. At September 30, 2022, unconditional promises of $1,015,473 and $2,830,000 are expected to be realized in less than one year and in one to eight years, respectively. At September 30, 2022, pledges receivable, net of current portion is presented net of discounts and estimated uncollectible amounts of $700,600 and $5,000, respectively.

Property, plant, and equipment – Property, plant, and equipment are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation, less accumulated depreciation. Depreciation of property, plant, and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from 8 to 20 years for land improvements, 5 to 40 years for buildings, and 3 to 20 years for equipment. Leasehold improvements are depreciated over the life of the lease. Interest cost incurred on the Hospital's general borrowings outstanding during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

Other assets – Other assets include the Network's interest in health-related joint ventures that are accounted for under the equity method (see Note 5), operating lease right of use assets (see Note 8), and life insurance arrangements (see Note 11).

Malpractice – The Network maintains malpractice insurance by purchasing claims-made policies. The claims-made policies have been renewed at the beginning of each fiscal year; however, should the claims-made policies not be renewed in the future or not be replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. Effective January 1, 2019, the Hospital and Medical Foundation malpractice risk is insured through the Captive and other excess policies and there is no liability retained for deductibles. The Specialty Medical Group and Primary Care Group are liable for the first $50,000 per claim. Management intends to continue to renew the Network's claims-made policies in future years. Losses from asserted and unasserted claims identified under the reporting system are accrued based on estimates that incorporate the past experience and relevant trend factors. The provision of estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

As of September 30, 2023, the Network has a known and unreported claims liability of $12,549,523 and a corresponding insurance recovery receivable of $5,966,050 for malpractice claims that are insured by a third-party excess loss policy and are actuarially determined. As of September 30, 2022, the Network has a known and unreported claims liability of $10,398,313 and a corresponding insurance recovery receivable of $4,093,722 for malpractice claims that are insured by a third-party excess loss policy and are actuarially determined. The claims liability is classified as malpractice liability reserve, current portion and malpractice liability reserve, net of current portion, and the insurance recoverable is classified as other current assets and other assets, respectively, in the accompanying consolidated balance sheets.

Health self-insurance – The Hospital and Medical Foundation maintain a policy of self-insuring health costs up to $225,000 per employee. The related liability is reported in accrued payroll and related liabilities on the consolidated balance sheets. Losses from asserted and unasserted claims identified under the reporting system are accrued based on estimates that incorporate past experience and relevant trend factors. The accrued health insurance liability also includes an estimate of possible losses attributable to incidents that may have occurred, but have not been reported.

Workers' compensation – The Hospital and Medical Foundation maintain an insurance policy against workers' compensation losses with supplemental coverage for losses in excess of $500,000 per claim covering its employees. As of September 30, 2023, letters of credit of $950,000 were maintained for these policies. In addition, $1,950,000 is maintained in a separate trust account as collateral. This account is included in other current assets at September 30, 2023. Losses from asserted and unasserted claims identified under the reporting system are accrued based on estimates that incorporate past experience and relevant trend factors. As of September 30, 2023, the Network has a known and unreported claims liability of $8,516,000 and a corresponding insurance recoverable of $2,717,000 for workers' compensation claims that are insured by the third-party excess loss policy and are actuarially determined. As of September 30, 2022, the liability and corresponding insurance recoverable were $7,521,000 and $2,327,000, respectively. The claims liability is classified as accounts payable and accrued expenses and other long-term liabilities and the insurance recoverable is classified as other current assets and other assets, respectively, in the accompanying consolidated balance sheets.

Operating income and excess of revenues, other support, and other gains (losses) over expenses attributable to Valley Children's Healthcare – The consolidated statements of operations include both operating income and excess of revenues, other support, and other gains (losses) over expenses attributable to Valley Children's Healthcare. Operating income includes activities central to the Network's ongoing operations while other gains are included in the excess of revenues, other support, and other gains (losses) over expenses attributable to Valley Children's Healthcare. The excess of revenues, other support, and other gains (losses) over expenses attributable to Valley Children's Healthcare is the performance indicator. Changes in net assets without donor restrictions, which are excluded from excess of revenues, other support, and other gains (losses) over expenses attributable to Valley Children's Healthcare, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purpose of acquiring such assets), and items that are required to be reported in or reclassified from net assets without donor restrictions.

Net patient service revenue – The Network records net patient service revenue at the transaction price estimated to reflect the total consideration due from patients and third-party payors in exchange for providing patient care goods and services. The Network records revenues as these goods and services are provided. For inpatient services, the Network's performance obligations are generally satisfied over periods that average approximately six days. For outpatient services, the Network's performance obligations are generally satisfied over a period of less than one day. The transaction price, which involves significant estimates, is determined based on the Network's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third-party contractual arrangements, as well as patient discounts and patient price concessions. Normal differences between final reimbursements and estimated amounts accrued in previous years are recorded as current year adjustments.

For all self-pay accounts, the Network estimates adjustments to the transaction price for implicit price concessions by reserving a percentage of these accounts based on collection history, adjusted for expected recoveries and any anticipated change in trends. The estimates for implicit price concessions are based on management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state, and private employer health care coverage, and other collection indicators. The Network writes off these accounts when all reasonable collection efforts have been made.

Other revenue – Other revenue primarily includes gifts and bequests without donor restrictions, contributions, revenue from physician coverage agreements, and cafeteria revenue. In March 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) outbreak a public health emergency. The COVID-19 outbreak has not resulted in facility closures; however, nonemergent and elective procedures were cancelled from mid-March to mid-May 2020. In response to the decline in net patient service revenue driven by lower patient volumes and increased operating expenses due to the pandemic, federal government funding was made available to health care providers. As part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), the Department of Health and Human Services (“HHS”) distributed $175 billion to health care providers as part of the Provider Relief Fund. The Network received $23,855,606 of these Provider Relief Fund distributions during the year ended September 30, 2022. As the Network met the conditions for $23,855,606 of these funds during the year ended September 30, 2022, the amount is recorded as contribution revenue within other revenue in the accompanying consolidated statements of operations. No amounts were received or recognized during the year ended September 30, 2023.

Charity care – The Network provides care to patients who meet certain criteria under its charity policy without charge or at amounts less than its established rates. The Network accepts patients regardless of their ability to pay. Partial payments to which the Network is entitled from public assistance programs on behalf of patients that meet the Network’s charity criteria are reported as patient service revenue. Because the Network does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income taxes – Valley Children’s Healthcare, Valley Children’s Hospital, Valley Children’s Healthcare Foundation, and Valley Children’s Medical Group are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Herndon Temperance LLC and Valley Children’s Insurance Company LLC are considered disregarded entities for tax purposes. The Specialty Medical Group, Primary Care Group, Valley Children’s Holdings I LLC, and Compass Health Administrators LLC have activities that may be subject to income taxes; however, such income tax activities are not significant to the consolidated financial statements. All tax-exempt entities are subject to review and audit by federal, state, and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes.

Fair value of financial instruments – Due to the short-term nature of cash and cash equivalents, accounts payable, and third-party reimbursement contracts, carrying values approximate fair value.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date, but before the consolidated financial statements are issued. The Network recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Network’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet, but arose after the consolidated balance sheet date and before the consolidated financial statements were issued.

The Network has evaluated subsequent events through December 7, 2023, which is the date the consolidated financial statements were issued.

Adoption of new accounting pronouncements – In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"), to provide optional guidance, if certain criteria are met, for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The Network adopted ASU 2020-04 as of September 30, 2023 and the effects on the consolidated financial statements were not material.

Reclassifications – Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation.

Note 2 – Net Patient Service Revenue and Patient Accounts Receivable

The Network has contractual agreements with third-party payors for payments based on mutually agreed upon methodologies and rates. A summary of the payment arrangements with major third-party payors follows:

Medi-Cal – The Hospital is reimbursed for inpatient Medi-Cal services based on APR-DRG case rates. The Hospital renders services to patients under contractual arrangements with the Medi-Cal Managed Care plans to be paid based on APR-DRG case rates or on a per diem basis. Outpatient Medi-Cal services are paid according to a fee schedule of maximum allowances for services rendered. The Hospital renders outpatient services under contractual arrangements with Medi-Cal Managed Care plans to be paid based on fee schedules, per case rates, and discounts from established charges. The Specialty Medical Group, Medical Foundation and Primary Care Group are paid according to fee schedules for both inpatient and outpatient services.

Other payors – The Hospital has also entered into contractual agreements with certain commercial insurance carriers, HMOs, preferred provider organizations ("PPOs"), and other governmental agencies. The basis for payment to the Hospital under these agreements includes prospectively determined per diem rates, per case rates, and discounts from established charges. The Specialty Medical Group, Medical Foundation and Primary Care Group are paid according to a fee schedule for both inpatient and outpatient services.

The following summary presents net patient service revenue by major payor classifications for the years ended September 30 (in thousands):

	2023			2022		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Net patient service revenue						
Medi-Cal Fee for Service	$ 86,653	$ 38,592	$ 125,245	$ 79,152	$ 41,680	$ 120,832
Medi-Cal Managed Care	70,875	69,141	140,016	69,294	69,392	138,686
Commercial Insurance	185,419	128,106	313,525	165,988	125,383	291,371
Other Insurance	302	463	765	1,715	361	2,076
Self-pay	637	2,661	3,298	1,216	2,108	3,324
	$ 343,886	$ 238,963	582,849	$ 317,365	$ 238,924	556,289
Disproportionate share and Presley funds			39,281			35,856
Provider fee funds			162,266			472,996
Net patient service revenue			$ 784,396			$ 1,065,141

Charity care provided in fiscal years 2023 and 2022, measured on the basis of estimated uncompensated costs was approximately $92,000 and $182,000, respectively. The estimated cost of providing charity care is calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients. In addition, estimated Medi-Cal uncompensated costs in fiscal years 2023 and 2022, net of disproportionate share funds received, were approximately $141,013,000 and $114,541,000, respectively.

As discussed in further detail below, California implemented the Hospital Fee Program (the "Program") through which hospitals in California, including Valley Children's Hospital, receive supplemental Medi-Cal payments. California implemented the Program to help offset a portion of hospital Medi-Cal payment shortfalls accrued over current and prior years. In fiscal year 2023, Medi-Cal uncompensated costs offset by net revenue from the Hospital Fee Program was approximately $16,808,000. The net revenue recognized from the Program in fiscal year 2022 exceeded estimated Medi-Cal uncompensated costs.

The Network grants credit without collateral to its patients, most of who are Central California residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors is as follows:

	2023			2022		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Net patient accounts receivable:						
Medi-Cal Fee for Service	24.4%	13.7%	21.3%	22.3%	14.6%	19.9%
Medi-Cal Managed Care	11.8%	13.8%	12.4%	17.6%	24.6%	19.8%
Commercial Insurance	60.1%	59.6%	59.9%	55.5%	49.0%	53.5%
Other Insurance	2.4%	2.0%	2.3%	2.8%	2.1%	2.5%
Self-pay	1.3%	10.9%	4.1%	1.8%	9.7%	4.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

During fiscal year 1992, the state of California passed Senate Bill 855 ("SB855") that provides state and federally matched funds for designated disproportionate Medi-Cal hospitals. Further, the Hospital's Medi-Cal contract was amended to include state and federally matched program funds pursuant to SB1255. During fiscal year 2005, the state of California passed Senate Bill 1100 ("SB1100"). Under SB1100, Private Hospital Funds replaced the SB855 program and Supplemental Hospital Funds replaced the SB1255 program under substantially similar terms. The Hospital recognized revenue related to these programs of $30,370,168 and $31,372,013 in 2023 and 2022, respectively, in net patient service revenue. Receivables related to the above were $7,058,428 and $8,031,081 at September 30, 2023 and 2022, respectively, in Medi-Cal disproportionate funds receivable.

At September 30, 2023 and 2022, the Hospital recorded receivables in the amounts of $3,052,861 and $1,013,151, respectively, in Medi-Cal disproportionate funds receivable related to funds for reimbursement of certain capital project financing costs under the state's Construction/Renovation Reimbursement Program pursuant to legislation passed by the State of California (SB1732-Presley funds). Amounts received under SB1732 are subject to audit by the California Department of Health Care Services. Future SB1732 receipts are dependent on the Hospital maintaining its disproportionate share status, among other requirements. The Hospital recognized revenue of $8,910,620 and $4,484,385 in 2023 and 2022, respectively, in net patient service revenue related to these funds.

As discussed above, the Network's Medi-Cal government reimbursement program accounts for a substantial amount of the Network's net patient service revenue. Currently, expenditure reduction efforts and budget concerns within the United States and California legislatures have created uncertainty over the level of future health care funding. It is at least reasonably possible that future reimbursements for patient services under these programs could be negatively impacted.

In November 2009, the Hospital Fee Program was signed into California state law. The Hospital Fee Program provides supplemental Medi-Cal payments to certain California hospitals. It is funded by a quality assurance fee (the Fee) paid by participating hospitals and by matching federal funds. Hospitals receive supplemental payments from either the California Department of Health Care Services (DHCS), managed care plans, or a combination of both. In November 2016, California voters approved Proposition 52, a state constitutional amendment that permanently extended the state Medi-Cal hospital fee program, which had been set to end under previous state law on January 1, 2018.

California enacted phase V, a 30-month quality assurance fee program for the period January 1, 2017 through June 30, 2019. Final approval by the Centers for Medicare & Medicaid Services (CMS) for the fee for service portion of this program occurred in December 2017. The managed care portion of phase V for the period January 1, 2017 through June 30, 2017 received final approval by CMS in May 2020 while the remaining managed care portions for the periods July 1, 2017 through June 30, 2018 and July 1, 2018 through June 30, 2019 were approved in June 2022.

Phase VI was enacted as a 30-month program for the period July 1, 2019 through December 31, 2021. Final approval by CMS for the fee for service portion of this program occurred in February 2020. The managed care portion of phase VI for the period July 1, 2019 through December 31, 2020 received final approval by CMS in February 2023. CMS approved the managed care portion for the period January 1, 2021 through December 31, 2021 in September 2023.

Phase VII was enacted as a 12-month program for the period January 1, 2022 through December 31, 2022. Final approval by CMS for the fee for service portion of this program occurred in September 2022. No managed care components of the program have been approved as of September 30, 2023.

Phase VIII was enacted as a 24-month program for the period January 1, 2023 through December 31, 2024. No components of this program have received CMS approval as of September 30, 2023.

During fiscal year 2022, the Hospital changed its policy to recognize fee for service and managed care pass through revenue based on Hospital Fee Program models. The Hospital concluded that there was sufficient history of modeled amounts and actual payments under the program consistent with amounts approved by CMS, allowing them to conclude it is improbable there would be a significant reversal of revenue once CMS approval is received. As a result, the Hospital has concluded that CMS' approval no longer represents a constraint on the variable consideration under the program, and consequently recognized revenue in the period in which the services are performed. Managed care directed payment revenue is recognized upon receipt of finalized directed payment amounts to be received as provided by DHCS. As a result, the Hospital recognized managed care pass through revenue, program expenses and fees for the period July 1, 2017 through September 30, 2022, managed care directed payment revenue, program expenses and fees for the period July 1, 2017 through June 30, 2020 and accrued fee for service revenue, program expenses and fees for the period October 1, 2021 through September 30, 2022.

Estimated supplemental payments of $58,628,745 related to the fee for service portion of the program and $414,367,085 related to the managed care portion of the program are included in net patient service revenue for the year ended September 30, 2022, with $95,360,420 remaining as a Hospital Fee Program receivable as of September 30, 2022. Estimated fees and pledges of $67,729,265 for the year ended September 30, 2022, are include in quality assurance fee expense. Of these amounts, $259,601,117 and $30,389,396 were recorded as of September 20, 2021, as deferred revenue and prepaid expenses and deposits, respectively.

Estimated supplemental payments of $62,050,800 related to the fee for service portion of the program and $100,215,659 related to the managed care portion of the program are included in net patient service revenue for the year ended September 30, 2023, with $159,584,178 remaining as a Hospital Fee Program receivable as of September 30, 2023. Estimated fees and pledges of $38,061,845 for the year ended September 30, 2023, are included in quality assurance fee expense.

The following table provides a summary of the revenues and expenses recorded during the years ended September 30 related to the Program:

	2023	2022
Program revenue	$ 162,266,459	$ 472,995,830
Program fees and pledges	(38,061,845)	(67,729,265)
Net program revenue	$ 124,204,614	$ 405,266,565

Note 3 – Fair Value of Assets and Liabilities

Fair value is defined 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. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value within the fair value hierarchy are:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Trading securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include: highly liquid government bonds, mortgage products, mutual funds, ETFs, and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include: certain collateralized mortgage and debt obligations and certain municipal securities. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include private investment funds and other closely held investments.

Foundation assets – Foundation assets consist of an insurance annuity and gift annuities as well as charitable remainder trusts and bequests. The fair value of the insurance and gift annuities is estimated by calculating the present value of the expected future payments to be received.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets reported at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	September 30, 2023			
Description	Level 1	Level 2	Level 3	Balance
Cash and cash equivalents	$ 474,160,465	$ -	$ -	$ 474,160,465
Common stocks	17,223,512	-	-	17,223,512
U.S. Treasury Notes	33,175,562	-	-	33,175,562
Mutual funds and ETFs	498,938,753	-	-	498,938,753
Investment contracts with insurance companies	-	11,153,138	-	11,153,138
Foundation assets	-	-	943,716	943,716
Alternative investments at net asset value	-	-	-	261,065,927
	$ 1,023,498,292	$ 11,153,138	$ 943,716	$ 1,296,661,073

	September 30, 2022			
Description	Level 1	Level 2	Level 3	Balance
Cash and cash equivalents	$ 633,079,889	$ -	$ -	$ 633,079,889
Common stocks	51,433,731	-	-	51,433,731
Mutual funds and ETFs	417,314,768	-	-	417,314,768
Investment contracts with insurance companies	-	11,153,138	-	11,153,138
Foundation assets	-	-	942,584	942,584
Alternative investments at net asset value	-	-	-	213,598,666
	$ 1,101,828,388	$ 11,153,138	$ 942,584	$ 1,327,522,776

Transfers between fair value input levels, if any, are recorded at the end of the reporting period. Transfers between fair value input levels occur when valuation inputs used to record or disclose assets or liabilities change from one level of the valuation hierarchy to another. During the years ended September 30, 2023 and 2022, there were no transfers between assets with inputs with quoted prices in active markets for identical assets (Level 1) and assets with inputs with significant other observable inputs (Level 2).

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized as other current assets and other assets in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

Balance, September 30, 2021	$ 994,501
Total realized and unrealized gains (losses):	
Included in operating income	1,612
Included in increase in net assets	(18,687)
Additions	-
Deletions	(34,842)
Investment fees	-
Balance, September 30, 2022	942,584
Total realized and unrealized gains (losses):	
Included in operating income	1,057
Included in increase in net assets	5,409
Additions	-
Deletions	(5,334)
Investment fees	-
Balance, September 30, 2023	$ 943,716

The following table provides additional information on certain entities that are reported at net asset value per share (or its equivalent) as of September 30 grouped by investment strategy.

	Fair Value		Redemption	Redemption Notice
	2023	2022	Frequency	Period
Global equity funds (a)	$ 81,201,455	$ 66,796,201	Monthly, quarterly	5-60 days
U.S. equity funds (b)	16,223,821	11,744,429	Quarterly	45-60 days
Private capital funds (c)	63,267,539	38,416,005	5 to 12 year commitment	Not applicable
Hedge funds (d)	89,353,364	86,949,797	Monthly, quarterly	30-90 days
Hedge fund (e)	11,019,748	9,692,234	3 year lock up	90 days
Total alternative investments at net asset value	$ 261,065,927	$ 213,598,666		

(a) This category includes a limited partnership that invests primarily in equity securities of foreign companies, including companies with very large market capitalizations, primarily for long-term appreciation; a limited partnership that seeks long-term capital appreciation by investing in the equity securities of large capitalization foreign multinational companies with superior growth prospects, high returns on invested capital, and low or no debt; a limited partnership that seeks long-term capital appreciation by investing in emerging and frontier market equity securities issued by companies with sustainable long-term above-average earnings growth; and an offshore fund that pursues value-based fundamental selection of equities in China, Japan, Korea, Taiwan, and other Asia-Pacific countries.

(b) This category consists of a limited partnership that invests in a concentrated portfolio of publicly traded equities identified through fundamental selection and a long-only equity fund, added in fiscal year 2023, with an investment approach based on fundamental research, emphasizing position, sector, and geographic concentration.

(c) As of September 30, 2022, this category consists of 14 private capital funds with $122,400,000 in commitments and partnership terms completing through 2033. Strategies employed for these private capital funds include:

- Private capital fund with an industry focus on software, healthcare, consumer products, and financial services.
- Private investment in growth-stage businesses in Japan.
- Equity investment in middle-market companies in North America.
- Global investment for long-term capital appreciation, in public and private companies.
- Equity investment in growth-stage as well as more mature software, software-enabled services, and Internet companies.
- Private investment with an industry focus on technology, healthcare, financial services, and consumer and business services.
- Growth equity investments in companies creating innovative medical treatments or developing technology-enabled improvements to the delivery of care.
- Increasing the equity value of profitable or cash-flowing companies through rapid operating improvements that reduce costs and provide opportunities to invest these cost savings to increase revenue growth.
- Concentrated investment in a designated portfolio company.
- Venture capital strategy with early-stage companies, mostly software companies.
- Venture capital strategy with later-stage companies.
- Venture capital investments in oil and gas and in non-fossil fuel extraction.
- Venture capital investments with a primary focus on investing in information technology, internet, mobile, networking, software and special situation companies.
- Venture capital strategy targeting the electronic gaming sector.

During fiscal year 2023, the Network made $57,000,000 in commitments to five additional private capital funds with partnership terms completing through 2035. Strategies employed by these private capital funds include:

- Growth-oriented investments in middle-market companies located in North America in the financial services, healthcare, industrials, and software sectors.
- Concentrated investment in a designated portfolio company in the electronic gaming sector.
- Investment in high-quality enterprise software and technology-enabled businesses in North America.
- Investments targeting the convergence of three technologies – instrumentation-driven data, powerful ubiquitous computation, and advanced automation and robotics — to speed up product development cycles at scale.
- Investment in profitable, high growth, middle-market companies within five core sectors: business services, consumer, financial services, healthcare, and technology.

(d) This category consists of nine hedge funds, as of September 30, 2022. Strategies employed include:

- Contrarian event-driven, specializing in situations characterized by the perceived undervaluation of securities relative to asset or enterprise value.
- Multi-strategy with an event-driven focus, seeking to exploit situations in which announced or anticipated events create opportunities to invest in securities and other financial instruments at a discount to their exit values.
- Investment to exploit inefficiencies in equity markets.
- Long/short investment in healthcare companies with strong underlying volume growth and attractive pricing power.
- Long/short equity, utilizing predictive signals that are long term in nature.
- Investment in U.S. residential mortgage-backed securities.
- Investment in high-yield structured finance securities, including asset-backed securities, residential mortgage-backed securities and commercial mortgage-backed securities (which may be distressed and/or rated sub-investment grade) and investments in pools of loans.
- Equity long/short, focused on technology, media, and telecommunications companies in Asia.
- Equity long/short, with a U.S. and China emphasis.

During fiscal year 2023, the Network invested in a new hedge fund that employs a long/short, fundamental, and value-driven investment strategy in the more inefficient small-to-mid capitalization segment of the corporate fixed-income market and specifically securities with higher yield characteristics. Plus, the Network liquidated its hedge fund with this strategy: Long/short equity, utilizing predictive signals that are long term in nature.

(e) This category consists of a hedge fund that makes liquid and illiquid investments globally in equity securities selected via fundamental analysis. The Network's investment is subject to a lock-up period that extends through January 2024.

Note 4 – Assets Whose Use is Limited

Assets whose use is limited at September 30 are summarized as follows:

	2023		2022	
	Cost	Market Value	Cost	Market Value
Board-designated cash and investments:				
Cash and cash equivalents	$ 469,392,086	$ 469,392,086	$ 631,909,918	$ 631,909,918
Common stocks	17,102,111	17,223,512	54,453,112	51,433,731
U.S Treasury Notes	33,435,856	33,175,562	-	-
Limited partnerships	81,526,673	97,425,277	76,275,696	78,540,631
Mutual funds and ETFs	467,992,968	498,938,753	411,095,001	417,314,768
Hedge funds	80,212,745	100,373,112	82,267,939	96,642,030
Private capital funds	59,658,431	63,267,538	36,893,140	38,416,005
Subtotal	1,209,320,870	1,279,795,840	1,292,894,806	1,314,257,083
Less: current portion	(8,430,000)	(8,430,000)	(8,030,000)	(8,030,000)
	1,200,890,870	1,271,365,840	1,284,864,806	1,306,227,083
Assets held by trustee under bond indenture:				
Cash and cash equivalents	4,768,379	4,768,379	1,169,971	1,169,971
Investment contracts with insurance company	11,153,138	11,153,138	11,153,138	11,153,138
Subtotal	15,921,517	15,921,517	12,323,109	12,323,109
Less: current portion	(484,066)	(484,066)	(500,794)	(500,794)
	15,437,451	15,437,451	11,822,315	11,822,315
Total current portion of assets whose use is limited	8,914,066	8,914,066	8,530,794	8,530,794
Total assets whose use is limited, net of current portion	$ 1,216,328,321	$ 1,286,803,291	$ 1,296,687,121	$ 1,318,049,398

Investment income and net unrealized gains (losses) for assets whose use is limited are comprised of the following:

	2023	2022
Income (loss)		
Net unrealized gains (losses) recognized during the period on trading securities	$ 47,139,712	$ (145,213,110)
Interest income	42,505,157	17,766,460
Investment fees	(3,592,950)	(3,709,824)
Net realized gains on sales of investments	4,940,689	13,040,677
	$ 90,992,608	$ (118,115,797)

In addition, the Network recorded (losses) gains of ($772,118) and $1,519,342 in investment income related to its health-related joint ventures accounted for under the equity method for the years ended September 30, 2023 and 2022, respectively. The Network recorded (losses) gains of ($2,067,834) and $619,601 for the years ended September 30, 2023 and 2022, respectively, related to the split-dollar life insurance policies.

Note 5 – Health-Related Joint Ventures

The Network has ownership interests in various health-related joint ventures, which are accounted for under the equity method and are included in other assets of the accompanying consolidated balance sheets.

Fowler Business and Professional Park LLC is a joint venture between the Hospital and Hanford Community Hospital d.b.a. Adventist Medical Center, each of which has a 50% ownership interest, to develop a 16-acre office park and to construct and operate a medical office building (Fowler Medical Plaza) in Fowler, California. At September 30, 2023 and 2022, the Hospital has an investment of $15,379,881 and $15,017,504, respectively, in Fowler Business and Professional Park LLC.

The Innovation Institute LLC is a joint venture between the Hospital and other hospitals and health systems throughout the United States to transform healthcare through development of innovative new products and services. The Innovation Institute LLC was organized in 2013, and the Hospital purchased a 15% ownership interest in April 2019. During fiscal year 2020, two health systems withdrew their ownership, resulting in the Hospital owning 21.2%. At September 30, 2023 and 2022, the Hospital has an investment of $21,200,490 and $22,184,985, respectively, in The Innovation Institute LLC.

The summarized consolidated financial statements of The Innovation Institute LLC as of and for the years ended September 30 are as follows (in thousands):

	2023	2022
Assets	$ 236,884	$ 317,077
Liabilities	$ 111,914	$ 178,984
Equity	$ 124,970	$ 138,093
Net (loss) income attributable to The Innovation Institute LLC	$ (3,596)	$ 7,477

As shown in Note 4, the Network recorded (losses) gains of ($772,118) and $1,519,342 in investment income related to its interests in these health-related joint ventures for the years ended September 30, 2023 and 2022, respectively.

Note 6 – Property, Plant, and Equipment, Net

Property, plant, and equipment, net consist of the following:

	2023	2022
Land	$ 82,234,515	$ 72,182,198
Land improvements	49,711,224	44,147,043
Buildings and leasehold improvements	423,307,118	376,088,797
Equipment	359,040,786	327,253,719
	914,293,643	819,671,757
Less: accumulated depreciation	(454,958,743)	(416,694,820)
	459,334,900	402,976,937
Construction in progress and assets not yet placed in service (Note 14)	39,983,201	54,363,239
	$ 499,318,101	$ 457,340,176

Note 7 – Long-Term Debt, Net

As of September 30, 2023 and 2022, the Hospital has available a secured line of credit with a bank providing for borrowings up to $30,000,000 with no borrowings outstanding, of which a maximum of $5,000,000 is available for standby letters of credit. The line of credit is secured under the Master Trust Indenture related to the County of Madera Certificates of Participation. The line of credit accrues interest at a variable rate of the daily simple Secured Overnight Financing Rate plus 0.60% and 0.90%, during the years ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and 2022, the variable rates were 5.91% and 2.98%, respectively. The line of credit expires on September 27, 2024.

The Hospital and Medical Foundation's workers' compensation policy requires letters of credit totaling $950,000 at September 30, 2023 and 2022, payable to the insurance company. No amounts have been drawn on the letters of credit as of September 30, 2023 and 2022.

The line and the letters of credit agreements contain various restrictive covenants that include, among other things, days cash on hand, leverage ratio, minimum debt service requirements, and other financial ratio requirements.

Long-term debt is summarized as follows:

	2023	2022
Valley Children's Hospital, Taxable Bonds (Valley Children's Hospital Taxable Bonds), Series 2018A, less unamortized debt issuance costs of $2,145,000 and $2,233,000 as of September 30, 2023 and 2022. Collateralized by revenues of the Hospital. Principal due in 2048. Interest payable semi-annually at 4.399% through 2048.	$ 200,127,075	$ 200,039,377
County of Madera, California, Certificates of Participation (Valley Children's Hospital Project), Series 1998, less unamortized discount and debt issuance costs of $12,000 as of September 30, 2022. Collateralized by revenues of the Hospital. Final principal of $8,030,000 paid in 2023. Interest payable semi-annually at 5.00% through 2023.	-	8,017,456
County of Madera, California, Certificates of Participation (Valley Children's Hospital Project), Series 1995, less unamortized discount and debt issuance costs of $440,000 and $611,000 as of September 30, 2023 and 2022, respectively. Collateralized by revenues of the Hospital. Principal due in annual amounts ranging from $8,430,000 in 2024 to $10,545,000 in 2028. Interest payable semi-annually at 5.75% through 2028.	46,850,129	46,678,985
Total	246,977,204	254,735,818
Less: current portion	(8,430,000)	(8,030,000)
Long-term debt, net of current portion	$ 238,547,204	$ 246,705,818

The taxable bonds and certificates of participation contain various restrictive covenants that include minimum debt service coverage ratio and restrictions on additional indebtedness, among others.

In July 2018, the Hospital issued Series 2018A taxable bonds ("2018 bonds"), in the aggregate principal amount of $202,272,000. A portion of the proceeds of the 2018 bonds was transferred to the trustee for the Series 2010 certificates of participation ("2010 bonds") to be held in an irrevocable escrow fund to pay regularly scheduled payments of principal and interest and the prepayment price of the 2010 bonds on the prepayment date of March 15, 2020. Additional proceeds were used to pay the bond issue costs. The remainder of the proceeds will be used to fund certain capital projects as well as for general corporate purposes.

Scheduled principal repayments of the taxable bonds and certificates of participation for the next five fiscal years and thereafter are as follows:

Years Ending September 30,	
2024	$ 8,430,000
2025	8,915,000
2026	9,430,000
2027	9,970,000
2028	10,545,000
Thereafter	202,272,000
	249,562,000
Unamortized discount and debt issuance costs	(2,584,796)
	246,977,204
Less: current portion	(8,430,000)
	$ 238,547,204

Note 8 – Operating Leases

The Network leases certain equipment and buildings under operating leases having a remaining noncancelable lease term of one year or more. Rental expense on such operating leases approximated $2,821,000 and $3,214,000 for the years ended September 30, 2023 and 2022, respectively.

At September 30, 2023 and 2022, operating lease right of use assets of $9,364,280 and $7,123,919, respectively, are included in other assets, operating lease current liabilities of $2,278,165 and $2,422,236, are included in accounts payable and accrued expenses, and operating lease long-term liabilities of $7,508,762 and $5,162,742 are included in other long-term liabilities in the accompanying consolidated balance sheets, respectively.

To value operating lease assets and liabilities, the Network uses a weighted average discount rate of 4.692% for the Hospital's operating leases and a discount rate of 4.399% for the Medical Foundation's operating leases. The discount rate reflects each obligor's weighted average borrowing rate on issued long-term debt.

At September 30, 2023, the weighted average remaining lease term for the Network's operating leases was approximately four years, with one equipment lease and one building lease completing in 2030.

A five year maturity analysis for the Network's operating leases is as follows:

Years Ending September 30,	
2024	$ 2,793,273
2025	2,030,633
2026	1,543,185
2027	1,095,586
2028	1,104,276
Thereafter	2,367,516
Total minimum payments	10,934,469
Less: present value discount	(1,147,542)
Total lease liability	$ 9,786,927

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	2023	2022
Healthcare services:		
Purchase of property, plant, and equipment	$ 8,084,181	$ 7,273,590
Indigent care	1,101,064	1,020,348
Health education	6,785,586	6,704,637
Other	17,811,568	21,691,564
	33,782,399	36,690,139
Endowment to be held for perpetuity:		
Guilds - various programs	13,590,759	12,503,579
General	5,898,097	5,894,347
Childhood Cancer Survivorship	5,586,249	3,781,909
Heart Center	1,942,690	1,930,735
Child Life	1,120,166	1,119,776
Other	3,168,332	3,260,702
	31,306,293	28,491,048
	$ 65,088,692	$ 65,181,187

Changes in endowment net assets consist of the following:

Endowment net assets, September 30, 2021	$ 34,299,925
Investment loss	(4,899,400)
Release of endowment earnings	(1,554,451)
Gifts and bequests	1,347,306
Endowment net assets, September 30, 2022	29,193,380
Investment income	2,872,712
Release of endowment earnings	(1,106,926)
Gifts and bequests	2,815,245
Endowment net assets, September 30, 2023	$ 33,774,411

Note 10 – Related-Party Transactions

ChildNet Medical Associates ("ChildNet") is an independent practice association of over 300 primary care and specialty physicians. ChildNet provides physician members support for their medical practice through contracting, credentialing, procurement contracts, risk management forums, and continuing medical education programs. The Hospital maintains an affiliation with ChildNet and provides administrative assistance to ChildNet in the form of personnel and other support services necessary for ChildNet's operation. Certain shareholders and directors of ChildNet are also hospital-based physicians and directors of the Specialty Medical Group and Primary Care Group.

The Network receives donations and periodic support from 13 independent guilds, all of which are separate and independent not-for-profit public benefit corporations. Each guild maintains an affiliation with another not-for-profit corporation, the Coordinating Council of the Guilds of Valley Children's Healthcare ("Coordinating Council"). The Chairperson of the Coordinating Council is an ex-officio member of the Hospital's Board of Trustees and the Hospital employs the Guild Director who oversees the Coordinating Council. The guilds collectively contributed approximately $1,102,000 and $892,000 in cash donations to the Hospital in the years ended September 30, 2023 and 2022, respectively.

Note 11 – Employee Benefit Plans

Defined contribution plans – The Hospital has adopted a defined contribution plan available to all employees. The plan qualifies under Internal Revenue Code Section 403(b) and was established to provide supplemental retirement income for employees of the Hospital. Employees may contribute up to 6% of their annual compensation to the plan for which the Hospital makes a matching contribution equal to 60% of each eligible employee's contribution. Employees are eligible to receive matching contributions after completing one year of service and must work 1,000 hours of service during the year.

Effective October 1, 2010, the Hospital amended the plan to provide an employer discretionary contribution referred to as the base contribution. Participants must work at least 1,000 hours of service, be employed on December 31, and have at least a year of service to be eligible for this annual contribution. The base contribution will range from 2% to 6% of eligible compensation, depending on the sum of each participant's age and years of service. Participants will be 100% vested after three years, and service under the Hospital's Pension Plan will count toward the vesting requirement.

Effective January 1, 2015, the Medical Foundation was designated as a participating employer under the plan. Employees of the Medical Foundation are eligible to contribute to the plan but are not eligible to receive a matching contribution. They are, however, eligible to receive a base contribution and will be given credit under the plan for purposes of eligibility and vesting on account of service rendered for physician groups provided that the employees were employed by the acquired physician groups immediately prior to the acquisition date. In addition, the plan was amended effective January 30, 2015 to change the plan name to Valley Children's Hospital Defined Contribution Retirement Plan.

For the years ended September 30, 2023 and 2022, the Hospital contributed $6,894,775 and $6,846,353 respectively, in matching contributions to the plan. The Hospital and Medical Foundation made base contributions of $10,040,205 and $9,810,301 during fiscal years 2023 and 2022, respectively. In addition, an accrual of $7,746,178 and $7,529,332 is included in accrued payroll and related liabilities of the accompanying consolidated balance sheets at September 30, 2023 and 2022, respectively, for the amounts earned in fiscal years 2023 and 2022 expected to be paid in the following fiscal years.

The Specialty Medical Group has adopted a defined contribution plan available to all employees. The plan qualifies under Internal Revenue Code Section 401(k). Employees may elect to defer a portion of their annual compensation up to the limits set forth by the Internal Revenue Service. The Specialty Medical Group contributes 8.5% of eligible compensation to the plan for all employees who have completed one year of service and who have worked 1,000 hours of service during the year.

Effective November 4, 2014, the Primary Care Group became an adopting employer of the plan. Effective June 1, 2015, the plan was amended to change the plan name to Valley Children's Specialty Medical Group 401(k) Profit Sharing Plan. Employer contributions were $4,777,414 and $4,065,150 for the years ended September 30, 2023 and 2022, respectively.

Supplemental executive retirement plan – During fiscal 1996, the Hospital adopted a noncontributory, nonqualified defined benefit supplemental executive retirement plan benefiting selected executives.

The plan provides for a benefit at age 62 based on years of service and compensation, offset by all other employer-paid retirement benefits. The plan allows the payment of benefits if termination is involuntary and without reasonable cause. If termination of employment occurs prior to age 62 for any reason other than involuntary termination, death, or disability, no benefit is payable under the plan.

On September 15, 2011, the Board of Trustees of the Hospital elected to freeze the accrued benefits of each participant in the plan effective on December 31, 2011. No new participants will be allowed to enter the plan after December 31, 2011, and existing participants will no longer accrue additional benefits under the plan as of this date.

During fiscal year 2022, the remaining active plan participant received the final benefit payment due from the plan. As a result, there is no projected benefit obligation included in the accompanying consolidated balance sheets at September 30, 2023 and 2022.

The actuarially computed net periodic benefit cost includes the following components:

	2023	2022
Interest cost	$ -	$ 215
Net periodic benefit cost	$ -	$ 215

The change in plan assets and the related change in benefit obligation are presented as follows:

	2023	2022
Change in benefit obligation:		
Projected benefit obligation, beginning of year:	$ -	$ 343,394
Interest cost	-	215
Actuarial loss/assumption change	-	-
Settlement loss	-	-
Benefits paid	-	(343,609)
Projected benefit obligation, end of year	-	-
Funded status	-	-
Unrecognized net actuarial loss	-	-
Accrued benefit cost	$ -	$ -
Amounts recognized in the consolidated balance sheets consist of:		
Accrued benefit cost	$ -	$ -
Recognition of funded status in net assets	-	-
	$ -	$ -

The amount included within changes in net assets from pension-related changes other than net periodic pension cost was $0 and ($177,995) for the years ended September 30, 2023 and 2022, respectively. No contributions were made in 2023 and 2022. Benefit payments of $343,609 were made during the year ended September 30, 2022. No benefit payments were made during the year ended September 30, 2023.

The weighted-average assumptions used to determine benefit obligations are as follows:

	2023	2022
Weighted-average assumptions:		
Discount rate	0.00%	0.00%

The weighted-average assumptions used to determine net periodic benefit cost are as follows:

	2023	2022
Weighted-average assumptions:		
Discount rate	0.00%	0.00%

Management was not required to make any contributions to the plan during the years ended September 30, 2023 and 2022.

Defined contribution supplemental executive retirement plan – During fiscal year 2012, the Hospital established a noncontributory, nonqualified deferred compensation plan for a select group of management.

The Hospital generally contributes 12% of eligible compensation reduced by the Hospital's base contribution and maximum matching contributions, which could be made to the Hospital's Defined Contribution Retirement Plan. In addition, any Hospital discretionary contributions to the deferred compensation plan reduce the benefit under this plan. A participant vests in each contribution five years from the first day of the plan year for which the contribution is earned.

Effective January 1, 2013, the Hospital amended the plan to remove the reductions in contributions from the base, matching, and discretionary contributions. In addition, a participant now vests three years from the first day of the plan year for which the contribution is earned.

An account has been established and maintained for each participant and is credited with the annual Hospital contributions. Participants are able to make individual investment elections and monitor performance of their individual account. Distributions from the plan are made at the earliest of contribution vesting, age 62 (normal retirement) and four years of participation, disability, or upon involuntary separation from service without reasonable cause.

Liabilities of $513,027 and $758,028 are included in accrued pension liability in the accompanying consolidated balance sheets at September 30, 2023 and 2022, respectively. Amounts are expected to be contributed to the plan in the fiscal year following the year in which they are earned.

Split-dollar life insurance program – The Hospital has entered into life insurance-based arrangements with certain key executives. The purpose of these arrangements is to retain the executives for a specified period of time and therefore access to this benefit is subject to extended vesting requirements. The Hospital fully funded the premiums on the associated life insurance policies at implementation and there are no additional funding requirements. Under the arrangements, the Hospital will accrue, no less than annually, the returns on the premiums paid for the life insurance policies. Upon the death of a covered executive, the Hospital will be repaid the investment and accrued returns.

As of September 30, 2023 and 2022, the arrangements are valued at $48,399,952 and $28,165,684, respectively, and are included in other assets in the accompanying consolidated balance sheets. For the years ended September 30, 2023 and 2022, the Hospital recorded net (losses) gains of ($2,067,834) and $619,601, respectively, related to the policies, which are included in investment income in the consolidated statements of operations and changes in net assets.

Deferred compensation plan – During fiscal year 2002, the Hospital adopted a deferred compensation plan benefiting selected executives. Participants may defer up to 100% of their annual salary, subject to annual Internal Revenue Service limitations. Matching contributions are discretionary and approved by the Board of Trustees. The plan provides for benefit distributions at age 70½, on termination of employment, or under certain hardships in accordance with regulations prescribed by the Secretary of the Treasury. The Hospital made no discretionary contributions during the years ended September 30, 2023 and 2022. Assets held for the benefit of the participants under the deferred compensation plan and correspondingly recorded as deferred compensation obligations were approximately $4,960,090 and $4,280,700 at September 30, 2023 and 2022, respectively, and are included in other assets and other long-term liabilities in the accompanying consolidated balance sheets.

During fiscal year 2020, the Hospital adopted an additional deferred compensation plan benefitting certain key executives. As a part of the participation agreement, participants elected to forego bonus compensation payments for past services and amounts were contributed by the Hospital into an account established and maintained for each participant. The contributions vest over varying periods of time as outlined in the individual participation agreements. Participants are able to make individual investment elections and monitor performance of their individual account. Assets held for the benefit of the participants under the deferred compensation plan, and correspondingly recorded as deferred compensation obligations, were approximately $498,000 and $1,400,000 at September 30, 2023 and 2022, respectively, and are included in other assets and other long-term liabilities in the accompanying consolidated balance sheets. Payments of approximately $1,771,000 and $1,051,000 were made during the years ended September 30, 2023 and 2022, respectively.

Note 12 – Functional Expenses

The Network provides health care services to the children of Central California. Expenses related to providing these services for the year ended September 30, 2023 are as follows:

	Program Services	Support Services	2023 Total
Expenses:			
Salaries and wages	$ 268,683,991	$ 76,297,669	$ 344,981,660
Employee benefits	104,428,539	37,426,323	141,854,862
Supplies	108,977,855	7,032,306	116,010,161
Professional fees	56,669,165	7,129,215	63,798,380
Purchased services	22,077,875	22,619,092	44,696,967
Insurance, taxes, and licenses	1,675,561	8,235,213	9,910,774
Utilities	5,462,636	3,742,835	9,205,471
Rents	5,271,989	1,220,734	6,492,723
Depreciation and amortization	26,856,109	13,627,050	40,483,159
Interest	6,060,234	4,229,600	10,289,834
Provision for bad debts	-	47,500	47,500
Quality assurance fee	38,061,845	-	38,061,845
Other	4,257,508	12,107,966	16,365,474
Total functional expenses	$ 648,483,307	$ 193,715,503	$ 842,198,810

Expenses related to providing these services for the year ended September 30, 2022 are as follows:

	Program Services	Support Services	2022 Total
Expenses:			
Salaries and wages	$ 251,084,102	$ 74,305,391	$ 325,389,493
Employee benefits	98,178,102	34,946,961	133,125,063
Supplies	112,282,505	6,770,630	119,053,135
Professional fees	44,482,545	7,362,115	51,844,660
Purchased services	22,290,362	21,292,531	43,582,893
Insurance, taxes, and licenses	1,744,604	9,494,483	11,239,087
Utilities	5,034,122	3,448,344	8,482,466
Rents	5,006,504	1,965,091	6,971,595
Depreciation and amortization	25,927,125	11,764,104	37,691,229
Interest	6,682,621	4,633,080	11,315,701
Provision for bad debts	-	2,100,407	2,100,407
Quality assurance fee	67,729,265	-	67,729,265
Other	1,172,052	13,641,487	14,813,539
Total functional expenses	$ 641,613,909	$ 191,724,624	$ 833,338,533

Expenses related to program services and support services such as depreciation, insurance, interest, utilities, and certain information technology expenses have been allocated based on the square feet of the facility or full-time equivalent employee count.

Note 13 – Liquidity and Availability of Resources

Financial assets available for general expenditures within one year of the consolidated balance sheet dates of September 30 consist of the following:

	2023	2022
Cash and cash equivalents	$ 33,840,225	$ 31,789,106
Patient accounts receivable, net	110,266,985	118,552,608
Medi-Cal disproportionate funds receivable	10,436,424	9,251,166
Assets whose use is limited	1,295,717,357	1,326,580,192
Pledges receivable	3,575,464	3,139,873
Financial assets	1,453,836,455	1,489,312,945
Less amounts not available to be used for general expenditures within one year		
Assets held by trustee under bond indenture	(15,921,517)	(12,323,109)
Assets designated for capital purchases	(6,836,945)	(31,163,621)
Assets whose use is limited, not available for liquidation within one year	(74,287,286)	(48,108,239)
Pledges receivable, net of current portion	(2,286,277)	(2,124,400)
Net assets with donor restrictions	(65,088,692)	(65,181,187)
Financial assets not available to be used for general expenditures within one year	(164,420,717)	(158,900,556)
Financial assets available to meet cash needs for general expenditures within one year	$1,289,415,738	$1,330,412,389

The Network manages its liquidity by monitoring cash flow and investment policies and allocations to ensure appropriate levels of operating cash reserves as well as by developing and adopting an annual operating budget that provides sufficient funds for general expenditures. Actual expenditures are reported and compared to the budget on a monthly basis.

Note 14 – Commitments and Contingencies

Construction and other capital commitments – As of September 30, 2023, the Network has spent $39,983,201 related to various construction and other capital projects in progress. The Network estimates an additional $67,239,143 will be required through fiscal year 2024 to complete the projects. As of September 30, 2023, the Network has outstanding commitments with contractors for approximately $24,653,361 related to these projects.

Legal – The Network is party to various legal proceedings and claims that arise during the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation will not have a material adverse effect on the Network's consolidated financial position and results of operations.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenues for patient services. Management believes that the Network is in substantial compliance with current laws and regulations and that any potential liability arising from compliance issues will not be material to the Network’s consolidated financial position and results of operations as of and for the year ended September 30, 2023.