



Report of Independent Auditors and
Consolidated Financial Statements

Valley Children's Healthcare

September 30, 2024 and 2023



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, 2024 and 2023, 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, 2024 and 2023, 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.

A handwritten signature in dark ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
December 12, 2024

Consolidated Financial Statements

Valley Children's Healthcare
Consolidated Balance Sheets
September 30, 2024 and 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 35,739,025	\$ 33,840,225
Patient accounts receivable, net	145,886,668	110,266,985
Inventories	18,082,207	15,161,663
Medi-Cal disproportionate funds receivable	10,893,725	10,436,424
Assets whose use is limited, current portion	9,378,870	8,914,066
Prepaid expenses and deposits	16,056,969	14,292,793
Pledges receivable, current portion	1,451,136	1,289,187
Hospital Fee Program receivable	101,390,844	159,584,178
Other current assets	17,502,900	16,013,411
Total current assets	356,382,344	369,798,932
ASSETS WHOSE USE IS LIMITED, net of current portion	1,512,348,506	1,286,803,291
PLEDGES RECEIVABLE, net of current portion	2,424,174	2,286,277
PROPERTY, PLANT, AND EQUIPMENT, net	500,793,493	499,318,101
OTHER ASSETS	117,001,078	123,275,616
Total assets	<u>\$2,488,949,595</u>	<u>\$2,281,482,217</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 48,834,444	\$ 42,308,612
Accrued payroll and related liabilities	71,314,629	65,443,896
Interest payable	485,910	499,007
Long-term debt, current portion	8,915,000	8,430,000
Malpractice liability reserve, current portion	1,818,716	4,037,103
Total current liabilities	131,368,699	120,718,618
LONG-TERM DEBT, net of current portion	229,874,518	238,547,204
OTHER LONG-TERM LIABILITIES	21,480,935	20,961,591
MALPRACTICE LIABILITY RESERVE, net of current portion	9,847,762	8,512,420
Total liabilities	392,571,914	388,739,833
NET ASSETS		
Without donor restrictions:		
Attributable to Valley Children's Healthcare	2,017,266,560	1,828,588,095
Noncontrolling interest	-	(934,403)
With donor restrictions	79,111,121	65,088,692
Total net assets	2,096,377,681	1,892,742,384
Total liabilities and net assets	<u>\$2,488,949,595</u>	<u>\$2,281,482,217</u>

See accompanying notes

Valley Children's Healthcare
Consolidated Statements of Operations
Years Ended September 30, 2024 and 2023

	2024	2023
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	\$ 870,389,565	\$ 784,395,742
Other revenue	60,489,033	55,425,111
Net assets released from restrictions for operating purposes	10,837,426	10,887,395
Total revenues and other support	941,716,024	850,708,248
EXPENSES		
Salaries and wages	378,796,238	344,981,660
Employee benefits	156,588,731	141,854,862
Supplies	141,998,685	116,010,161
Professional fees	74,486,353	63,798,380
Purchased services	41,399,587	44,696,967
Insurance, taxes, and licenses	11,846,577	9,910,774
Utilities	9,254,476	9,205,471
Rents	6,984,843	6,492,723
Depreciation and amortization	42,986,501	40,483,159
Interest	10,785,604	10,289,834
Provision for bad debts	-	47,500
Quality assurance fee	42,926,883	38,061,845
Other	19,540,288	16,365,474
Total expenses	937,594,766	842,198,810
Operating income	4,121,258	8,509,438
OTHER GAINS AND LOSSES		
Investment income and net unrealized gains on investments	181,498,739	88,152,656
Other nonoperating losses	(926,085)	(551,989)
Total other gains and losses	180,572,654	87,600,667
EXCESS OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES	184,693,912	96,110,105
LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	20,611	169,850
EXCESS OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES ATTRIBUTABLE TO VALLEY CHILDREN'S HEALTHCARE	184,714,523	96,279,955

See accompanying notes

Valley Children's Healthcare
Consolidated Statements of Operations (Continued)
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CHANGES IN VALUE OF GIFT ANNUITY	12,750	3,124
PURCHASE OF NONCONTROLLING INTEREST	(1,155,014)	-
OTHER	-	(431,253)
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF LONG-TERM ASSETS	<u>5,106,206</u>	<u>290,495</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS ATTRIBUTABLE TO VALLEY CHILDREN'S HEALTHCARE	<u>188,678,465</u>	<u>96,142,321</u>
DEFICIENCY OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(20,611)	(169,850)
DISTRIBUTION TO NONCONTROLLING INTEREST	(200,000)	-
PURCHASE OF NONCONTROLLING INTEREST	<u>1,155,014</u>	<u>-</u>
Increase (decrease) in net assets without donor restrictions attributable to noncontrolling interest	<u>934,403</u>	<u>(169,850)</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u><u>\$ 189,612,868</u></u>	<u><u>\$ 95,972,471</u></u>

See accompanying notes

Valley Children's Healthcare
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2024 and 2023

	2024	2023
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of revenues, other support, and other gains over expenses attributable to Valley Children's Healthcare	\$ 184,714,523	\$ 96,279,955
Changes in value of gift annuity	12,750	3,124
Purchase of noncontrolling interest	(1,155,014)	-
Other	-	(431,253)
Net assets released from restrictions for purchase of long-term assets	5,106,206	290,495
Increase in net assets without donor restrictions attributable to Valley Children's Healthcare	188,678,465	96,142,321
DEFICIENCY OF REVENUES, OTHER SUPPORT, AND OTHER GAINS OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(20,611)	(169,850)
DISTRIBUTION TO NONCONTROLLING INTEREST	(200,000)	-
PURCHASE OF NONCONTROLLING INTEREST	1,155,014	-
Increase (decrease) in net assets without donor restrictions attributable to noncontrolling interest	934,403	(169,850)
Increase in net assets without donor restrictions	189,612,868	95,972,471
NET ASSETS WITH DONOR RESTRICTIONS		
Gifts, bequests, and grants	21,329,367	6,442,712
Investment income and net realized and unrealized gains on investments	8,636,694	4,211,430
Other	-	431,253
Net assets released from restrictions for operating purposes	(10,837,426)	(10,887,395)
Net assets released from restrictions for purchase of long-term assets	(5,106,206)	(290,495)
Increase (decrease) in net assets with donor restrictions	14,022,429	(92,495)
INCREASE IN NET ASSETS	203,635,297	95,879,976
NET ASSETS, beginning of year	1,892,742,384	1,796,862,408
NET ASSETS, end of year	\$2,096,377,681	\$1,892,742,384

See accompanying notes

Valley Children's Healthcare
Consolidated Statements of Cash Flows
Years Ended September 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 203,635,297	\$ 95,879,976
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,986,501	40,483,159
Amortization of bond issuance costs	242,314	271,386
Unrealized and realized gains on investments	(146,291,890)	(52,080,401)
Provision for bad debts	-	47,500
Gain on sale of property, plant, and equipment	(209,990)	(205,203)
Contributions received for long-term purposes	(545,516)	(122,770)
Loss on impairment of assets	157,079	6,866
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(34,904,613)	8,285,623
Medi-Cal disproportionate funds receivable	(457,301)	(1,185,258)
Inventories, prepaid expenses and deposits, pledges receivable, hospital fee program receivable and other assets	64,923,161	(81,390,484)
Accounts payable and accrued expenses, accrued payroll and related liabilities, interest payable, and malpractice liability reserve	4,375,353	(737,891)
Net cash provided by operating activities	133,910,395	9,252,503
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of assets whose use is limited	(859,539,184)	(385,498,714)
Proceeds from sale of assets whose use is limited	780,361,909	472,040,358
Purchases of property, plant, and equipment	(44,620,984)	(82,452,474)
Proceeds from sale of property, plant, and equipment	212,002	215,084
Net cash (used in) provided by investing activities	(123,586,257)	4,304,254

See accompanying notes

Valley Children's Healthcare
Consolidated Statements of Cash Flows (Continued)
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	\$ (8,430,000)	\$ (8,030,000)
Contributions received for long-term purposes	<u>545,516</u>	<u>122,770</u>
Net cash used in financing activities	<u>(7,884,484)</u>	<u>(7,907,230)</u>
Net increase in cash and cash equivalents	2,439,654	5,649,527
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>38,608,604</u>	<u>32,959,077</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u><u>\$ 41,048,258</u></u>	<u><u>\$ 38,608,604</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest, net of amount capitalized	\$ 10,556,387	\$ 10,035,095
Cash, cash equivalents, and restricted cash, end of year, are comprised of the following:		
Cash and cash equivalents	\$ 35,739,025	\$ 33,840,225
Assets whose use is limited, current portion	463,870	484,066
Assets whose use is limited, net of current portion	<u>4,845,363</u>	<u>4,284,313</u>
Cash, cash equivalents, and restricted cash, end of year	<u><u>\$ 41,048,258</u></u>	<u><u>\$ 38,608,604</u></u>

See accompanying notes

Valley Children's Healthcare

Notes to Consolidated Financial Statements

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 200 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 Healthcare

Notes to Consolidated Financial Statements

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 and historically Valley Children's Holdings I LLC has held the controlling member interest in Compass Health Administrators LLC. Effective October 20, 2023, Valley Children's Holdings I LLC purchased the noncontrolling 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.

Valley Children's Healthcare

Notes to Consolidated Financial Statements

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 FDIC, 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 Taxable Bonds, Series 2018A (see Note 7).

Valley Children's Healthcare

Notes to Consolidated Financial Statements

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. Long-lived asset impairment of \$157,079 and \$6,866 was recognized for the years ended September 30, 2024 or 2023, respectively. 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 2024 and 2023. At September 30, 2024, unconditional promises of \$1,451,136 and \$3,236,150 are expected to be realized in less than one year and in one to eight years, respectively. At September 30, 2024, pledges receivable, net of current portion is presented net of discounts and estimated uncollectible amounts of \$806,976 and \$5,000, respectively. 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.

Valley Children's Healthcare

Notes to Consolidated Financial Statements

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 primarily 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, 2024, the Network has a known and unreported claims liability of \$11,666,478, and a corresponding insurance recovery receivable of \$3,656,706 for malpractice claims that are insured by a third-party excess loss policy and are actuarially determined. 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. 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.

Valley Children's Healthcare

Notes to Consolidated Financial Statements

Health self-insurance – The Hospital and Medical Foundation maintain a policy of self-insuring health costs up to \$225,000 per employee. The Specialty Medical Group and the Primary Care Group maintain a policy of self-insuring health costs up to \$100,000 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, 2024, letters of credit of \$850,000 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, 2024. 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, 2024, the Network has a known and unreported claims liability of \$8,136,000 and a corresponding insurance recoverable of \$2,401,000 for workers' compensation claims that are insured by the third-party excess loss policy and are actuarially determined. As of September 30, 2023, the liability and corresponding insurance recoverable were \$8,516,000 and \$2,717,000, 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 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 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 over expenses attributable to Valley Children's Healthcare. The excess of revenues, other support, and other gains 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 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. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute services. The Network measures the performance obligation (associated with inpatient acute services) from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. 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.

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Notes to Consolidated Financial Statements

For all self-pay accounts, the Network estimates adjustments to the transaction price for implicit price concessions and estimated credit losses 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.

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, Compass Health Administrators LLC, and Valley Children's Insurance Company LLC are considered disregarded entities for tax purposes. The Specialty Medical Group, Primary Care Group, and Valley Children's Holdings I 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 12, 2024, which is the date the consolidated financial statements were issued.

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Adoption of new accounting pronouncements – In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 requires the use of an expected loss model on certain types of financial instruments. ASU 2016-13 also sets forth a current expected credit loss model, which requires the Network to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets. The adoption of ASU 2016-13 is effective for the Network beginning October 1, 2023. The Network has adopted ASU 2016-13 during the year ended September 30, 2024. The adoption of ASU 2016-13 did not have a material impact on the Network's consolidated financial statements.

Reclassifications – Certain amounts in the 2023 consolidated financial statements have been reclassified to conform to the 2024 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.

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Notes to Consolidated Financial Statements

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

	2024			2023		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Net patient service revenue						
Medi-Cal Fee for Service	\$ 75,640	\$ 51,079	\$ 126,719	\$ 86,653	\$ 38,592	\$ 125,245
Medi-Cal Managed Care	97,362	86,164	183,526	70,875	69,141	140,016
Commercial Insurance	195,731	138,990	334,721	185,419	128,106	313,525
Other Insurance	1,411	609	2,020	302	463	765
Self-pay	1,971	2,950	4,921	637	2,661	3,298
	<u>\$ 372,115</u>	<u>\$ 279,792</u>	<u>651,907</u>	<u>\$ 343,886</u>	<u>\$ 238,963</u>	<u>582,849</u>
Disproportionate share and Presley funds			40,458			39,281
Provider fee funds			<u>178,025</u>			<u>162,266</u>
Net patient service revenue			<u>\$ 870,390</u>			<u>\$ 784,396</u>

Charity care provided in fiscal years 2024 and 2023, measured on the basis of estimated uncompensated costs, was approximately \$117,000 and \$92,000, 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 2024 and 2023, net of disproportionate share funds received, were approximately \$212,627,000 and \$185,431,000, 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 years 2024 and 2023, Medi-Cal uncompensated costs offset by net revenue from the Hospital Fee Program were approximately \$63,373,000 and \$61,227,000, respectively.

The Network grants credit without collateral to its patients, most of whom 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 as of September 30:

	2024			2023		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Net patient accounts receivable:						
Medi-Cal Fee for Service	22.8%	18.6%	21.3%	24.4%	13.7%	21.3%
Medi-Cal Managed Care	11.0%	21.3%	14.7%	11.8%	13.8%	12.4%
Commercial Insurance	62.9%	52.4%	59.1%	60.1%	59.6%	59.9%
Other Insurance	1.0%	0.9%	1.0%	2.4%	2.0%	2.3%
Self-pay	2.3%	6.8%	3.9%	1.3%	10.9%	4.1%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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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 \$33,714,379 and \$30,370,168 in 2024 and 2023, respectively, in net patient service revenue. Receivables related to the above were \$7,121,758 and \$7,058,428 at September 30, 2024 and 2023, respectively, in Medi-Cal disproportionate funds receivable.

At September 30, 2024 and 2023, the Hospital recorded receivables in the amounts of \$3,474,673 and \$3,052,861, 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 \$6,743,453 and \$8,910,620 in 2024 and 2023, 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.

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 managed care 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. CMS approved managed care for the period January 1, 2022, through December 31, 2022, in February 2024.

Phase VIII was enacted as a 24-month program for the period January 1, 2023, through December 31, 2024. Final approval by CMS for the fee for service portion of this program occurred in December 2023. Portions of the managed care components of this program received partial CMS approval in March and April of 2024.

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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 recognizes 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.

Estimated supplemental payments of \$77,199,425 related to the fee for service portion of the program and \$100,825,212 related to the managed care portion of the program are included in net patient service revenue for the year ended September 30, 2024, with \$101,390,844 remaining as a receivable as of September 30, 2024. Estimated fees and pledges of \$42,926,883 for the year ended September 30, 2024, are included in quality assurance fee expense.

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 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:

	2024	2023
Program revenue	\$ 178,024,637	\$ 162,266,459
Program fees and pledges	<u>(42,926,883)</u>	<u>(38,061,845)</u>
Net program revenue	<u>\$ 135,097,754</u>	<u>\$ 124,204,614</u>

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.

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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, investment contracts with insurance companies 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:

Description	September 30, 2024			Balance
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 550,839,759	\$ -	\$ -	\$ 550,839,759
Common stocks	43,399,299	-	-	43,399,299
U.S. Treasury Notes	33,526,484	-	-	33,526,484
Mutual funds and ETFs	492,942,496	-	-	492,942,496
Investment contracts with insurance companies	-	11,153,138	-	11,153,138
Foundation assets	-	-	952,881	952,881
Alternative investments at net asset value	-	-	-	389,866,200
Total	<u>\$ 1,120,708,038</u>	<u>\$ 11,153,138</u>	<u>\$ 952,881</u>	<u>\$ 1,522,680,257</u>

Description	September 30, 2023			Balance
	Level 1	Level 2	Level 3	
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
Total	<u>\$ 1,023,498,292</u>	<u>\$ 11,153,138</u>	<u>\$ 943,716</u>	<u>\$ 1,296,661,073</u>

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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, 2024 and 2023, 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, 2022	\$ 942,584
Total realized and unrealized gains	
Included in operating income	1,057
Included in increase in net assets	5,409
Deletions	<u>(5,334)</u>
Balance, September 30, 2023	943,716
Total realized and unrealized gains	
Included in operating income	1,750
Included in increase in net assets	12,749
Deletions	<u>(5,334)</u>
Balance, September 30, 2024	<u><u>\$ 952,881</u></u>

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

	Fair Value		Redemption Frequency	Redemption Notice Period
	2024	2023		
Global equity funds (a)	\$ 155,441,877	\$ 81,201,455	Monthly, quarterly	5-60 days
U.S. equity funds (b)	8,471,814	16,223,821	Quarterly	45-60 days
Private capital funds (c)	112,313,001	63,267,539	5 to 12 year commitment	Not applicable
Hedge funds (d)	82,957,982	89,353,364	Monthly, quarterly	30-90 days
Hedge funds (e)	<u>30,681,526</u>	<u>11,019,748</u>	18 to 36 month lock up	60-90 days
Total alternative investments at net asset value	<u><u>\$ 389,866,200</u></u>	<u><u>\$ 261,065,927</u></u>		

(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.

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During fiscal year 2024, the Network invested in a new fund focused on non-U.S. equity with a quantitative, value-oriented approach and liquidated its investment in the limited partnership that invests primarily in equity securities of foreign companies, including companies with very large market capitalizations, primarily for long-term appreciation.

(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 with an investment approach based on fundamental research, emphasizing position, sector, and geographic concentration.

During fiscal year 2024, the Network liquidated its investment in the limited partnership that invests in a concentrated portfolio of publicly traded equities identified through fundamental selection.

(c) As of September 30, 2023, this category consists of 19 private capital funds with \$179,400,000 in commitments and partnership terms completing through 2035. 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.
- 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.
- Growth-oriented investments in middle-market companies located in North America in the financial services, healthcare, industrials, and software sectors.
- Investment in a designated portfolio company in the electronic gaming sector.

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- 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.

During fiscal year 2024, the Network made \$44,000,000 in commitments to four additional private capital funds with partnership terms completing through 2034. Strategies employed by these private capital funds include:

- Middle market buyout, primarily investing in the U.S. and targeting investments in government-regulated and adjacent sectors such as aerospace and defense, government services and technology, healthcare, business services, and software.
- Investment in a designated portfolio company in the services sector.
- Middle-market buyout investments in software companies.
- Buyout investments in upstream energy.

In addition, the Network made \$14,000,000 in commitments to two private debt funds. Strategies employed by these private debt funds include:

- Investing in senior debt of distressed, event-driven opportunities.
- Investing in senior and junior direct lending, opportunistic corporate debt, structured credit, secondary credit, and select equity co-investments.

(d) This category consists of nine hedge funds, as of September 30, 2023. 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.
- 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.

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- 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.

During fiscal year 2024, the Network invested in a new hedge fund that employs a long/short investment strategy with an emphasis on pre-commercial drug development as well as broader life-science and healthcare innovation companies. Plus, the Network liquidated its hedge fund with this strategy: Investment in U.S. residential mortgage-backed securities.

(e) As of September 30, 2023, 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 three year lock-up period that extended through January 2024.

During fiscal year 2024, the Network invested in:

- A new hedge fund with a two year lock-up period and that employs a long/short investment strategy with a fundamental, bottom-up research process focused primarily on public equities in technology, media and telecommunications, consumer, and business services sectors.
- A new hedge fund with an 18 month lock-up period and that has exposure to diverse sources of credit opportunities globally, including liquid, public markets, and private credit.

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Note 4 – Assets Whose Use is Limited

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

	2024		2023	
	Cost	Market Value	Cost	Market Value
Board-designated cash and investments:				
Cash and cash equivalents	\$ 545,530,526	\$ 545,530,526	\$ 469,392,086	\$ 469,392,086
Common stocks	38,079,280	43,399,299	17,102,111	17,223,512
U.S. Treasury Notes	33,436,075	33,526,484	33,435,856	33,175,562
Limited partnerships	130,785,153	163,913,692	81,526,673	97,425,277
Mutual funds and ETFs	407,467,099	492,942,496	467,992,968	498,938,753
Hedge funds	87,029,840	113,639,507	80,212,745	100,373,112
Private capital funds	92,513,550	112,313,001	59,658,431	63,267,538
Subtotal	1,334,841,523	1,505,265,005	1,209,320,870	1,279,795,840
Less: current portion	(8,915,000)	(8,915,000)	(8,430,000)	(8,430,000)
Total board-designated	1,325,926,523	1,496,350,005	1,200,890,870	1,271,365,840
Assets held by trustee under bond indenture:				
Cash and cash equivalents	5,309,233	5,309,233	4,768,379	4,768,379
Investment contracts with insurance company	11,153,138	11,153,138	11,153,138	11,153,138
Subtotal	16,462,371	16,462,371	15,921,517	15,921,517
Less: current portion	(463,870)	(463,870)	(484,066)	(484,066)
Total held by trustee	15,998,501	15,998,501	15,437,451	15,437,451
Total current portion of assets whose use is limited	9,378,870	9,378,870	8,914,066	8,914,066
Total assets whose use is limited, net of current portion	<u>\$ 1,341,925,024</u>	<u>\$ 1,512,348,506</u>	<u>\$ 1,216,328,321</u>	<u>\$ 1,286,803,291</u>

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

	2024	2023
Income		
Net unrealized gains recognized during the period on trading securities	\$ 96,006,458	\$ 47,139,712
Interest income	44,849,785	42,505,157
Investment fees	(6,092,605)	(3,592,950)
Net realized gains on sales of investments	50,285,432	4,940,689
Total investment income	<u>\$ 185,049,070</u>	<u>\$ 90,992,608</u>

In addition, the Network recorded losses of \$3,366,565 and \$772,118 in investment income related to its health-related joint ventures accounted for under the equity method for the years ended September 30, 2024 and 2023, respectively. The Network recorded losses of \$183,766 and \$2,067,834 for the years ended September 30, 2024 and 2023, respectively, related to the split-dollar life insurance policies.

Valley Children's Healthcare

Notes to Consolidated Financial Statements

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, 2024 and 2023, the Hospital has an investment of \$15,628,950 and \$15,379,881, 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, 2024 and 2023, the Hospital has an investment of \$17,500,628 and \$21,200,490, 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):

	2024	2023
Assets	\$ 238,457	\$ 236,884
Liabilities	\$ 140,066	\$ 111,914
Equity	\$ 98,391	\$ 124,970
Net loss attributable to The Innovation Institute LLC	\$ (12,393)	\$ (3,596)

As shown in Note 4, the Network recorded losses of \$3,366,565 and \$772,118 in investment income related to its interests in these health-related joint ventures for the years ended September 30, 2024 and 2023, respectively.

Valley Children's Healthcare

Notes to Consolidated Financial Statements

Note 6 – Property, Plant, and Equipment, Net

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

	2024	2023
Land	\$ 103,636,248	\$ 82,234,515
Land improvements	63,103,580	49,711,224
Buildings and leasehold improvements	432,054,772	423,307,118
Equipment	371,737,411	359,040,786
Subtotal	970,532,011	914,293,643
Less: accumulated depreciation	(494,927,145)	(454,958,743)
	475,604,866	459,334,900
Construction in progress and assets not yet placed in service (Note 14)	25,188,627	39,983,201
Property, plant, and equipment, net	\$ 500,793,493	\$ 499,318,101

Note 7 – Long-Term Debt, Net

As of September 30, 2024 and 2023, 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 \$1,000,000 in 2024 and \$5,000,000 in 2023 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 .60% during the years ended September 30, 2024 and 2023. As of September 30, 2024 and 2023, the variable rates were 5.56% and 5.91%, respectively. The line of credit expires on September 27, 2025.

The Hospital and Medical Foundation's worker compensation policy requires letters of credit totaling \$850,000 at September 30, 2024, and \$950,000 at September 30, 2023, payable to the insurance company. No amounts have been drawn on the letters of credit as of September 30, 2024 and 2023.

The line of credit provides that the Hospital may request an increase in the aggregate amount of the line of credit up to \$30,000,000 for a total line of credit of \$60,000,000. The bank is not under obligation to increase the line of credit but may do so at its option.

The line and 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.

Valley Children's Healthcare

Notes to Consolidated Financial Statements

Long-term debt is summarized as follows:

	<u>2024</u>	<u>2023</u>
Valley Children's Hospital, Taxable Bonds (Valley Children's Hospital Taxable Bonds), Series 2018A, less unamortized debt issuance costs of \$2,057,000 and \$2,145,000 as of September 30, 2024 and 2023. Collateralized by revenues of the Hospital. Principal due in 2048. Interest payable semi-annually at 4.399% through 2048.	\$ 200,214,772	\$ 200,127,075
County of Madera, California, Certificates of Participation (Valley Children's Hospital Project), Series 1995, less unamortized discount and debt issuance costs of \$285,000 and \$440,000 as of September 30, 2024 and 2023, respectively. Collateralized by revenues of the Hospital. Principal due in annual amounts ranging from \$8,915,000 in 2025 to \$10,545,000 in 2028. Interest payable semi- annually at 5.75% through 2028.	<u>38,574,746</u>	<u>46,850,129</u>
Total	238,789,518	246,977,204
Less: current portion	<u>(8,915,000)</u>	<u>(8,430,000)</u>
Long-term debt, net of current portion	<u><u>\$ 229,874,518</u></u>	<u><u>\$ 238,547,204</u></u>

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.

Valley Children's Healthcare

Notes to Consolidated Financial Statements

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

<u>Years Ending September 30,</u>	
2025	\$ 8,915,000
2026	9,430,000
2027	9,970,000
2028	10,545,000
2029	-
Thereafter	<u>202,272,000</u>
	241,132,000
Unamortized discount and debt issuance costs	<u>(2,342,482)</u>
Total	238,789,518
Less: current portion	<u>(8,915,000)</u>
Total principal repayments, net of current portion	<u><u>\$ 229,874,518</u></u>

Note 8 – Operating Leases

The Network leases certain equipment and buildings under operating leases having a remaining non-cancelable lease term of one year or more. Rental expense on such operating leases approximated \$3,039,000 and \$2,821,000 for the years ended September 30, 2024 and 2023, respectively.

At September 30, 2024 and 2023, operating lease right-of-use assets of \$8,685,061 and \$9,364,280, respectively, are included in other assets; operating lease current liabilities of \$2,335,069 and \$2,278,165, respectively, are included in accounts payable and accrued expenses; and operating lease long-term liabilities of \$6,734,942 and \$7,508,762, respectively, are included in other long-term liabilities in the accompanying consolidated balance sheets.

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, 2024, 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.

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Notes to Consolidated Financial Statements

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

Years Ending September 30,

2025	\$ 2,907,533
2026	2,209,318
2027	1,530,171
2028	1,226,656
2029	1,238,605
Thereafter	<u>1,254,375</u>
Total minimum payments	10,366,658
Less: present value discount	<u>(1,296,647)</u>
Total lease liability	<u><u>\$ 9,070,011</u></u>

Note 9 – Net Assets with Donor Restrictions

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

	<u>2024</u>	<u>2023</u>
Healthcare services		
Purchase of property, plant, and equipment	\$ 5,453,057	\$ 8,084,181
Indigent care	1,269,162	1,101,064
Health education	7,454,031	6,785,586
Other	<u>31,597,437</u>	<u>17,811,568</u>
Total healthcare	<u>45,773,687</u>	<u>33,782,399</u>
Endowment to be held for perpetuity:		
Guilds – various programs	15,149,727	13,590,759
General	5,903,272	5,898,097
Childhood Cancer Survivorship	6,053,589	5,586,249
Heart Center	1,951,890	1,942,690
Child Life	1,120,166	1,120,166
Other	<u>3,158,790</u>	<u>3,168,332</u>
Total held endowment	<u>33,337,434</u>	<u>31,306,293</u>
Total net assets	<u><u>\$ 79,111,121</u></u>	<u><u>\$ 65,088,692</u></u>

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Notes to Consolidated Financial Statements

Changes in endowment net assets consist of the following:

Endowment net assets, September 30, 2022	\$ 29,193,380
Investment income	2,872,712
Release of endowment earnings	(1,106,926)
Gifts and bequests	<u>2,815,245</u>
Endowment net assets, September 30, 2023	33,774,411
Investment income	6,513,984
Release of endowment earnings	(1,443,396)
Gifts and bequests	<u>2,031,142</u>
Endowment net assets, September 30, 2024	<u>\$ 40,876,141</u>

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 12 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). A representative of the guilds is elected by the Valley Children's Healthcare Board to serve on the Hospital's board of trustees and the Hospital employs the Guild Director who oversees the Coordinating Council. The guilds collectively contributed approximately \$1,613,000 and \$1,102,000 in cash donations to the Hospital in the years ended September 30, 2024 and 2023, 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.

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Notes to Consolidated Financial Statements

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, 2024 and 2023, the Hospital contributed \$7,548,850 and \$6,894,775, respectively, in matching contributions to the plan. The Hospital and Medical Foundation made base contributions of \$10,453,044 and \$10,040,205 during fiscal years 2024 and 2023, respectively. In addition, an accrual of \$8,631,431 and \$7,746,178 is included in accrued payroll and related liabilities of the accompanying consolidated balance sheets at September 30, 2024 and 2023, respectively, for the amounts earned in fiscal years 2024 and 2023, 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 \$5,140,691 and \$4,777,414 for the years ended September 30, 2024 and 2023, respectively.

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.

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Notes to Consolidated Financial Statements

Liabilities of \$431,999 and \$513,027 are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets at September 30, 2024 and 2023, 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; 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, 2024 and 2023, the arrangements are valued at \$48,216,186 and \$48,399,952, respectively, and are included in other assets in the accompanying consolidated balance sheets. For the years ended September 30, 2024 and 2023, the Hospital recorded net losses of \$183,766 and \$2,067,834, 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, 2024 and 2023. Assets held for the benefit of the participants under the deferred compensation plan and correspondingly recorded as deferred compensation obligations were approximately \$5,957,023 and \$4,960,090 at September 30, 2024 and 2023, 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 benefiting 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 \$297 and \$498,000 at September 30, 2024 and 2023, respectively, and are included in other assets and other long-term liabilities in the accompanying consolidated balance sheets. Payments of approximately \$513,000 and \$1,771,000 were made during the years ended September 30, 2024 and 2023, respectively.

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Notes to Consolidated Financial Statements

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, 2024, are as follows:

	Program Services	Support Services	Total
Expenses			
Salaries and wages	\$ 296,798,377	\$ 81,997,861	\$ 378,796,238
Employee benefits	116,620,341	39,968,390	156,588,731
Supplies	134,060,637	7,938,048	141,998,685
Professional fees	63,509,741	10,976,612	74,486,353
Purchased services	21,405,347	19,994,240	41,399,587
Insurance, taxes, and licenses	1,686,871	10,159,706	11,846,577
Utilities	5,253,520	4,000,956	9,254,476
Rents	6,256,564	728,279	6,984,843
Depreciation and amortization	26,817,718	16,168,783	42,986,501
Interest	6,089,796	4,695,808	10,785,604
Quality assurance fee	42,926,883	-	42,926,883
Other	5,964,718	13,575,570	19,540,288
	<u>\$ 727,390,513</u>	<u>\$ 210,204,253</u>	<u>\$ 937,594,766</u>
Total functional expenses	<u>\$ 727,390,513</u>	<u>\$ 210,204,253</u>	<u>\$ 937,594,766</u>

Expenses related to providing these services for the year ended September 30, 2023, are as follows:

	Program Services	Support Services	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
	<u>\$ 648,483,307</u>	<u>\$ 193,715,503</u>	<u>\$ 842,198,810</u>
Total functional expenses	<u>\$ 648,483,307</u>	<u>\$ 193,715,503</u>	<u>\$ 842,198,810</u>

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.

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Notes to Consolidated Financial Statements

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:

	2024	2023
Cash and cash equivalents	\$ 35,739,025	\$ 33,840,225
Patient accounts receivable, net	145,886,668	110,266,985
Medi-Cal disproportionate funds receivable	10,893,725	10,436,424
Assets whose use is limited	1,521,727,376	1,295,717,357
Pledges receivable	<u>3,875,310</u>	<u>3,575,464</u>
Financial assets	<u>1,718,122,104</u>	<u>1,453,836,455</u>
Less amounts not available to be used for general expenditures within one year		
Assets held by trustee under bond indenture	(16,462,371)	(15,921,517)
Assets designated for capital purchases	-	(6,836,945)
Assets whose use is limited, not available for liquidation within one year	(142,994,527)	(74,287,286)
Pledges receivable, net of current portion	(2,424,174)	(2,286,277)
Net assets with donor restrictions	<u>(79,111,121)</u>	<u>(65,088,692)</u>
Financial assets not available to be used for general expenditures within one year	<u>(240,992,193)</u>	<u>(164,420,717)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$1,477,129,911</u></u>	<u><u>\$1,289,415,738</u></u>

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, 2024, the Network has spent \$25,188,627 related to various construction and other capital projects in progress. The Network estimates an additional \$96,289,927 will be required through fiscal year 2025 to complete the projects. As of September 30, 2024, the Network has outstanding commitments with contractors for approximately \$34,125,000 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.

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Notes to Consolidated Financial Statements

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, 2024.

