Lucile Salter Packard Children's Hospital at Stanford

Consolidated Financial Statements and Accompanying Consolidating Information
August 31, 2022 and 2021

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Report of Independent Auditors

To the Board of Directors
Lucile Salter Packard Children's Hospital at Stanford

Opinion

We have audited the accompanying consolidated financial statements of Lucile Salter Packard Children's Hospital at Stanford and its subsidiaries ("LPCH"), which comprise the consolidated balance sheets as of August 31, 2022, and 2021, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of LPCH as of August 31, 2022, and 2021, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 LPCH'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 LPCH's ability to continue as a going concern for a reasonable period of time.

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

PricewaterhouseCoopers LLP

San Francisco, California
December 6, 2022

Lucile Salter Packard Children's Hospital at Stanford
Consolidated Balance Sheets
August 31, 2022 and 2021

(in thousands of dollars)		**2022**		**2021**
Assets				
Current assets				
Cash and cash equivalents	$	461,814	$	398,194
Short term investments in Stanford University ("University") managed pools		-		1
Patient accounts receivable		590,940		579,760
Contributions receivable		138,027		79,329
Due from related parties		29,148		13,059
Other receivables		8,647		38,023
Prepaid expenses, inventory and other		57,730		61,242
Total current assets		1,286,306		1,169,608
Investments		90,316		89,872
Investments in University managed pools		1,030,196		1,081,283
Board designated funds in University managed pools and other		146,248		164,414
Property and equipment, net		1,748,023		1,776,007
Beneficial interest in trusts, net		28,736		32,762
Contributions receivable, net of current portion		107,946		73,767
Right of use lease assets		207,491		231,215
Equity method investments and other assets		61,259		61,548
Total assets	$	4,706,521	$	4,680,476
Liabilities and Net Assets				
Current liabilities				
Accounts payable, accrued liabilities, and deferred provider fee	$	230,062	$	219,751
Accrued salaries and related benefits		136,825		129,168
Third-party payor settlements		32,587		21,597
Current portion of long-term debt		9,110		9,045
Current portion of long-term right of use lease liability		31,468		29,147
Self-insurance reserves and other liabilities		16,304		14,218
Total current liabilities		456,356		422,926
Self-insurance reserves and other liabilities, net of current portion		60,841		70,645
Long-term right of use lease liability, net of current portion		187,934		212,047
Long-term debt, net of current portion		812,721		830,916
Total liabilities		1,517,852		1,536,534
Net assets				
Without donor restrictions		2,339,730		2,375,992
With donor restrictions		848,939		767,950
Total net assets		3,188,669		3,143,942
Total liabilities and net assets	$	4,706,521	$	4,680,476

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

Lucile Salter Packard Children's Hospital at Stanford
Consolidated Statements of Operations and Changes in Net Assets
Years Ended August 31, 2022 and 2021

(in thousands of dollars)	**2022**	**2021**
Operating revenues and other support		
Net patient service revenue	$ 2,148,161	$ 2,072,724
Provider fee	93,730	65,992
Other revenue	101,722	91,195
Net assets released from restrictions used for operations	19,562	29,307
Total operating revenues and other support	2,363,175	2,259,218
Operating expenses		
Salaries and benefits	1,163,765	1,023,210
Professional services	18,768	13,520
Supplies	211,535	200,925
Purchased services	657,568	644,675
Provider fee	24,127	20,553
Other	156,592	136,372
Interest	31,042	31,982
Depreciation and amortization	94,426	109,341
Total operating expenses	2,357,823	2,180,578
Income from operations	5,352	78,640
Interest income	2,303	2,869
(Loss) Income and gains from University managed pools and other	(31,958)	205,754
Income tax credit	223	710
Gain on extinguishment of debt	6,947	-
Other components of net periodic postretirement cost and settlement loss	(3,371)	(1,637)
(Deficiency) Excess of revenues over expenses	(20,504)	286,336
Changes in net assets without donor restrictions		
Net assets released from restrictions used for purchases of property and equipment	29,111	10,270
Adjustment for minimum pension liability	1,897	(94)
Transfers to University and other	(46,766)	(48,079)
Contributions released to transfer to University	60,531	99,533
Contributions transferred to University	(60,531)	(99,533)
(Decrease) Increase in net assets without donor restrictions	(36,262)	248,433
Changes in net assets with donor restrictions		
Contributions and other	215,571	154,780
(Loss) Income and gains from University managed pools	(12,396)	129,446
Change in value of beneficial interest in remainder trusts	(3,867)	3,326
Net assets released from restrictions for operations	(19,562)	(29,307)
Net assets released from restrictions used for purchases of property and equipment	(29,111)	(10,270)
Contributions released to transfer to University	(60,531)	(99,533)
Transfers (to) from University and other	(9,115)	47
Increase in net assets with donor restrictions	80,989	148,489
Increase in net assets	44,727	396,922
Net assets		
Beginning of year	3,143,942	2,747,020
End of year	$ 3,188,669	$ 3,143,942

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

Lucile Salter Packard Children's Hospital at Stanford
Consolidated Statements of Cash Flows
Years Ended August 31, 2022 and 2021

(in thousands of dollars)	2022	2021
Cash flows from operating activities		
Change in net assets	$ 44,727	$ 396,922
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	91,850	106,726
Loss on disposal of property and equipment	26	863
Gain on extinguishment of debt	(6,947)	-
Impairment loss of right of use lease assets	-	2,170
Loss (Gains) from University managed pools	21,952	(163,232)
Loss (Gains) from investments	14,510	(38,757)
Contributions and investment income restricted by donors	(147,663)	(200,529)
Change in value of beneficial interest in trusts	4,487	(3,228)
Earnings in excess of distributions in equity method investees	(1,847)	(11,953)
Changes in operating assets and liabilities		
Patient accounts receivable	(11,180)	(112,148)
Beneficial interest in trusts	(779)	467
Contributions receivable	2,819	(10,540)
Due from related parties	39,878	64,558
Other receivables, inventory, other assets, prepaid expenses and other	33,948	(10,688)
Accounts payable, accrued liabilities, and deferred provider fee	18,320	51,984
Accrued salaries and related benefits	7,658	35,743
Self-insurance and other liabilities	3,272	9,395
Cash provided by operating activities	115,031	117,753
Cash flows from investing activities		
Purchases of investments in University managed pools and other	(34,246)	(28,195)
Sales of investments in University managed pools and other	31,422	24,777
Purchases of property and equipment	(68,273)	(43,136)
Proposition 4 grants	-	8,131
Cash used in investing activities	(71,097)	(38,423)
Cash flows from financing activities		
Payment of long term debt	(239,898)	(38,635)
Proceeds from issuance of long-term debt	230,594	-
Cost of issuance related to debt issuance	(2,182)	-
Contributions and investment income restricted by donors	85,232	51,392
Transfers to related parties	(55,967)	(48,050)
Proceeds from contributions to charitable remainder trusts	2,726	-
Payments made under split-interest agreements	(819)	-
Cash provided by (used in) financing activities	19,686	(35,293)
Net increase in cash and cash equivalents	63,620	44,037
Cash and cash equivalents		
Beginning of year	398,194	354,157
End of year	$ 461,814	$ 398,194
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	$ 29,235	$ 34,644
Income taxes refunded	(224)	(704)
Noncash activities		
(Decrease) increase in accounts payable related to purchases of property and equipment	$ (2,880)	$ 1,087
Donated securities received	7,025	6,264

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

(in thousands of dollars)

1. Organization

Lucile Salter Packard Children's Hospital at Stanford ("LPCH") operates a licensed acute care pediatric and obstetric hospital on The Leland Stanford Junior University ("University") campus in Palo Alto, California and operates several inpatient care units on its license in nearby community hospitals. LPCH also operates outpatient physician clinics in its facilities and other community settings.

The Board of Trustees of the University is the sole corporate member of LPCH and Stanford Health Care ("SHC"). LPCH has 5,769 full time and part time employees as of August 31, 2022.

LPCH and SHC are the primary clinical affiliates of the Stanford University School of Medicine (the "Stanford School of Medicine") for internship and residency programs, clinical research and other programs that support the Stanford School of Medicine's academic mission. Within the Stanford School of Medicine, the Pediatric and Obstetrics Faculty Practice Organization ("FPO") exists to advance the missions of the Stanford School of Medicine and LPCH where they intersect in the delivery of professional medical services.

The related party transactions between LPCH, SHC, the University and the Stanford School of Medicine are described further in Note 12.

In 2011, LPCH, together with the Stanford School of Medicine, formed Packard Children's Health Alliance ("PCHA"), a nonprofit medical foundation corporation, which is affiliated with Packard Medical Group, Inc. ("PMG"), a physician-owned for-profit California professional corporation. The Stanford School of Medicine and LPCH are the members of PCHA, and appoint directors to the governing board. The bylaws of PCHA afford control of PCHA to LPCH and therefore, the activities of PCHA have been included in the consolidated financial statements of LPCH. There is a professional services agreement between PCHA and Packard Medical Group. Physicians who provide services through PCHA are all and must be employees of the Packard Medical Group and PCHA assumes responsibility for all aspects of the physicians' practice, including employee practice staff.

PCHA has been organized to operate community based pediatric specialty and subspecialty and obstetrics practices throughout the San Francisco Bay Area. The objectives of PCHA are to support the overall network by building a presence in growing service areas, expanding education and clinical research programs, and enhancing the quality and coordination of care across different care settings. As of August 31, 2022, PCHA includes approximately 185 physicians and other providers at 26 practices in 41 locations around the San Francisco Bay Area. PCHA also operates seven specialty services centers in Brentwood, Capitola, Emeryville, Fremont, Monterey, Walnut Creek, and Livermore. LPCH has entered into a sponsorship agreement with PCHA, wherein LPCH has agreed to provide funding for the development and the operation of PCHA's physician practices.

LPCH, together with PCHA, PMG and the FPO, comprise and are known in the marketplace as "Stanford Medicine Children's Health", previously known as "Stanford Children's Health".

(in thousands of dollars)

Effective September 1, 2016, LPCH became the sole corporate member of Lucile Packard Foundation for Children's Health ("LPFCH"), a public charity, founded in 1996, whose mission is to elevate the priority of children's health and increase the quality and accessibility of children's healthcare through leadership and direct investment. LPFCH pursues its mission through two distinct and complementary programs: (1) fundraising (development) for LPCH and the pediatric programs at the Stanford School of Medicine and (2) grant-making and public information and educational programs to promote the health and well-being of children through statewide and local partnerships and to raise awareness about children's health issues. The bylaws of LPFCH afford control of LPFCH to LPCH and therefore, the activities of LPFCH are included in the consolidated financial statements and footnotes of LPCH.

Effective September 1, 2002, LPCH and SHC entered into an agreement whereby LPCH became a member of the Stanford University Medical Indemnity Trust, a not-for-profit, captive insurance company incorporated in the State of Hawaii. On February 2, 2009, Stanford University Medical Indemnity and Trust Insurance Company organized as a segregated accounts company under the laws of Bermuda as SUMIT Insurance Company Ltd ("SUMIT").

SUMIT Holding International, LLC ("SHI") is the sole owner of SUMIT and Stanford University Medical Network Risk Authority, LLC (dba The Risk Authority) ("TRA"). SHC and LPCH are the owners of SHI.

LPCH's share of SUMIT net assets through SHI was approximately 20.1% and 22.5% for the years ended August 31, 2022 and 2021, respectively. LPCH's ownership in SUMIT through SHI is accounted for using the equity method. As of August 31, 2022 and 2021, LPCH had an investment of $18,902 and $20,593 in SUMIT, respectively, which is reflected on the Consolidated Balance Sheets in equity method investments and other assets.

TRA was formed on September 19, 2012 and began operations on December 1, 2012. TRA provides risk management services to SHI, the owners of SHI, and other affiliated and unaffiliated parties and serves as attorney-in-fact to Professional Exchange Insurance Company ("PEAC"). LPCH's ownership interest in TRA through SHI was 18.0% for the years ended August 31, 2022 and 2021. LPCH's ownership in TRA through SHI is accounted for using the equity method. LPCH's investment in TRA was $(1) and $24 for the years ended August 31, 2022 and 2021, respectively, which is reflected on the Consolidated Balance Sheets in equity method investments and other assets.

Professional Exchange Insurance Company ("PEAC"), a captive insurance carrier that entered into business with TRA on October 18, 2012, provides professional liability insurance coverage for physicians and other licensed healthcare practitioners of PCHA, University Healthcare Alliance (a subsidiary of SHC), and other affiliated parties. PCHA and University Healthcare Alliance are the owners of PEAC. PCHA's share of net assets in PEAC was 47.4% and 43.1% for the years ended August 31, 2022 and 2021, respectively. PCHA's ownership in PEAC is accounted for using the equity method. PCHA had an investment in PEAC of $3,083 and $3,071 for the years ended August 31, 2022 and 2021, respectively, which is reflected on the Consolidated Balance Sheets in equity method investments and other assets.

(in thousands of dollars)

On September 1, 2006, LPCH and the University entered into a Professional Services Agreement ("PSA") pursuant to which the University assigned to LPCH the right to bill and collect all revenue related to pediatric and obstetric practices on behalf of the Stanford School of Medicine. The latest amendment was adopted as of September 1, 2022, and it is in effect for six years through August 31, 2028.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting.

Net assets of LPCH and subsidiaries and changes therein have been classified and are reported as follows:

- ***Net assets without donor restrictions***–Net assets without donor restrictions represent those resources of LPCH and subsidiaries 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 LPCH and subsidiaries 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 restricted to transfer to University, and contributions which are a) subject to donor-imposed restrictions that can be fulfilled by actions of LPCH pursuant to those stipulations or by the passage of time or b) subject to donor-imposed restrictions that they be maintained by LPCH in perpetuity. For contributions to LPCH, generally, the donors of these assets permit LPCH to use all or part of the investment return on these assets.

Expenses are reported as decreases in net assets without donor restrictions. Donor-imposed restrictions expire when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Restricted contributions are recorded as net assets with donor restrictions when received. When the restriction expires, the net assets are shown as released from restriction in the Consolidated Statements of Operations and Changes in Net Assets. Income earned on net assets with donor restrictions for which that income is restricted for a stipulated purpose is recorded in net assets with donor restrictions. When income is made available for release and when the restriction is deemed to have been met, those amounts are included in net assets released from restrictions in the Consolidated Statements of Operations and Changes in Net Assets.

Contributions received on behalf of and transferred to University

Contributions received on behalf of University is recognized as a net assets with donor restrictions in the Consolidated Balance Sheets, and as the contributions in the Consolidated Statement of Operations and Changes in Net Assets. Contributions that LPCH transferred to or obligated itself to transfer to University is recorded as contributions transferred to University in the Consolidated Statement of Operations and Changes in Net Assets.

(in thousands of dollars)

Cash and Cash Equivalents
Cash and cash equivalents consist primarily of demand deposits and money market mutual funds with an original maturity of three months or less when purchased. These amounts are carried at cost which approximates fair value. The Federal Deposit Insurance Corporation, or FDIC, insures a corporation's funds deposited in a bank up to a maximum of $250 in the event of a bank failure. As of August 31, 2022, our cash and cash equivalents held in bank deposits exceeded the FDIC insured amount. We have not experienced any losses in relation to cash and cash equivalents in excess of FDIC insurance limits.

Contributions Receivable
Contributions are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as net assets with donor restrictions and are included as restricted contributions. 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 promises are received and recorded in their respective net asset category. The discount rates used during the years ended August 31, 2022 and 2021 were determined using the average corporate AAA bond rate as of the fund's gift date. 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 recognized when the condition is substantially met.

Other Receivables
Other receivables are comprised of nonpatient related receivables for medical services provided.

Investments
Investments held directly by LPCH and its subsidiaries consist primarily of mutual funds that are stated at fair value. Investment earnings (including unrealized gains and losses on investments, realized gains and losses, interest, and dividends on investment securities) are included in income and gains from University managed pools and other in the Consolidated Statements of Operations and Changes in Net Assets unless the income or loss is restricted by donor or law. Income on investments of donor restricted funds is added to or deducted from net assets with donor restrictions.

Investments in University Managed Pools
Investments in University managed pools consist of funds invested in the University's Merged Pool ("MP"). The value of LPCH's share of the MP is determined by the University and is based upon the fair value of the underlying assets held in the MP. Earnings include distributions and increases or decreases in the value of LPCH's share of the pool. LPCH may deposit funds in the MP at its discretion; however, withdrawals require advance notice. All investment gains and losses and the increases or decreases in the share value are treated as unrealized and included in the excess (deficiency) of revenues over expenses in the Consolidated Statements of Operations and Changes in Net Assets, unless the income is restricted by donor or law.

Board Designated Funds
LPCH has $146,248 of Board Designated Funds. The funds are approved by either LPCH's board of directors for future investments in facilities, programs, and services, or by LPCH's or LPFCH's board of directors as board designated funds functioning as an endowment for long-term investment that is intended to provide an inflation-adjusted total return, net of investment management fees, at least equal to the contemplated spending rate of 5% to 5.5% over time.

(in thousands of dollars)

Beneficial Interest in Trusts

Beneficial interest in trusts represent gifts for which LPCH or LPFCH is the trustee and the remainder beneficiary of certain charitable remainder trusts, where the trust assets are invested and administered by outside trustees. Beneficiaries sustain a lifetime interest in a portion of the trust income. Investments held in these trusts are carried at fair value. The discount rate used during the years ended August 31, 2022 and 2021 were determined using the Treasury bill rate. The related liabilities are based on estimated future payments to beneficiaries discounted at 3.34% and 1.16% for the years ended August 31, 2022 and 2021, respectively. Additionally, LPCH is the sole beneficiary of a perpetual trust that is carried at the fair market value of the trust. Income from the trust (interest, net of fees) is distributed to LPCH and included in interest income.

Liquidity

LPCH actively manages its liquidity, to ensure organization's financial obligations can be satisfied. Operating liquidity is monitored daily and reported periodically to senior management and the Board. Liquidity is inclusive of cash and cash equivalents, operating current assets expected to be liquidated for general expenditure needs within one year or less, and investments held. Investments have varying liquidation requirements, depending on the investments and trustee.

Financial assets and liquid resources available within one year of the balance sheet date for general expenditures as of August 31, 2022 and 2021 are as follows:

	2022	2021
Financial assets		
Cash and cash equivalents	$ 461,814	$ 398,194
Patient accounts receivable	590,940	579,760
Contributions receivable available for operations	21,345	12,564
Other receivables	8,647	38,023
Investments available for current use	739,898	788,068
Financial assets available to meet cash needs for general expenditure within one year	$ 1,822,644	$ 1,816,609

As of August 31, 2022 and 2021, in addition to the above resources, LPCH has $200,000 available credit in a revolving credit agreement with Bank of America.

Property and Equipment

Property and equipment are stated at cost except for donated assets, which are recorded at fair market value at the date of donation. LPCH and its subsidiaries capitalize certain internal costs of computer software developed or obtained for internal use. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives, which are as follows:

Land improvements	5 to 25 years
Buildings and improvements	3 to 50 years
Equipment	3 to 20 years
Land agreements	40 to 57 years

(in thousands of dollars)

Significant replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon sale or disposal of property and equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included as part of other revenue in the Consolidated Statements of Operations and Changes in Net Assets.

LPCH and its subsidiaries hold several land agreements, also classified as property and equipment. These land agreements are amortized on a straight-line basis over the term of the agreements and are reflected as depreciation and amortization in the Consolidated Statements of Operations and Changes in Net Assets.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized, net of any interest earned, as a component of the cost of acquiring the asset.

Leases

LPCH's lease portfolio primarily consists of operating leases for real estate and equipment. LPCH determines if an arrangement is or contains a lease at the lease inception date by evaluating whether the arrangement conveys the right to use an identified asset and whether LPCH obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Leases with initial term of twelve months or less are not recorded on the consolidated balance sheets. LPCH recognizes operating expense for leases on a straight-line basis over the lease term.

LPCH uses its incremental borrowing ("IBR") rate to determine the present value of lease payments. The IBR is calculated by utilizing the daily treasury yield curve rates, as published by the U.S. Department of the Treasury, adjusted with a risk base spread. LPCH updates the rate quarterly and utilizes the treasury rate yields as of the first business day of each quarter for all new leases entered during that quarter. Rates are in 1 year increments up to 10 years. All leases in excess of 10 years utilize the 10-year rate.

In addition, LPCH's real estate leases generally require payment of real estate taxes, common area maintenance and insurance, which are generally variable and based on actual costs incurred by the lessor. These variable payments are expensed as incurred as variable lease costs. LPCH's lease agreements do not contain any material residual value guarantees or material restrictive financial covenants. LPCH has lease agreements with lease and nonlease components, which are accounted for separately for real estate leases and together as a single lease component for nonreal estate leases.

Impairment and Disposition 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 of the assets 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.

(in thousands of dollars)

Equity Method Investments and Other Assets
Equity method investments and other assets includes ownership interest in SUMIT, TRA, PEAC, and third-party investments in hospital related joint ventures, deposits with vendors, and goodwill. Investments in hospital related joint ventures where LPCH owns between 20 and 50 percent are accounted for under the equity method as LPCH has the ability to exercise significant influence over operating and financial policies of the joint venture, but does not have the controlling financial interest. Equity method investments comprises $45,526 and $43,666 of equity method investments and other assets on the Consolidated Balance Sheets as of August 31, 2022 and 2021, respectively. Earnings from equity method investments were $6,941 and $16,399 and are included in other revenue in the Consolidated Statements of Operations and Changes in Net Assets in the periods ended August 31, 2022 and 2021.

In relation to goodwill, LPCH periodically evaluates its goodwill to determine whether any events or changes in circumstances have occurred that indicate the remaining balances may not be recoverable. If the carrying value of goodwill or indefinite lived intangible assets are determined to be impaired, or if the carrying value of a business that is to be sold or otherwise disposed of exceeds its fair value, then the carrying value is reduced, including any allocated goodwill, to fair value. Estimates of fair value are based on appraisals, established market prices for comparative assets or internal estimates of future net cash flows based on projected performance, depending on circumstances.

No impairment of goodwill is included in the accompanying Consolidated Statement of Operations and Changes in Net Assets for the years ended August 31, 2022 or 2021. The amortization period of goodwill has been determined to be 10 years. All current goodwill will be amortized over this period and additional goodwill will be evaluated as incurred.

Compensated Absences
In accordance with formal policies concerning vacation and other compensated absences, accruals of $81,021 and $73,280 were recorded as of August 31, 2022 and 2021, respectively, and are included in accrued salaries and related benefits.

Long-Term Debt
Premiums arising from the original issuance of long-term debt are amortized on the effective interest method, over the life of the debt. The unamortized portion of these premiums is included in long-term debt.

Deferred debt issuance costs represent costs incurred in conjunction with the issuance of LPCH's long-term debt. These costs are amortized on the effective interest method, over the life of the debt.

(Deficiency) Excess of Revenues over Expenses
The Consolidated Statements of Operations and Changes in Net Assets include (deficiency) excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from (deficiency) excess of revenues over expenses include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and adjustment for minimum pension liability.

(in thousands of dollars)

Net Patient Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors including Medi-Cal and others for services rendered. The contractual commitments and laws and regulations governing the payment for services for government (Medi-Cal and Medicare) and commercial payors are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Generally, LPCH bills the patients and third-party payors shortly after discharge or when the service is performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided to patients. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Performance obligations satisfied over time relate to patients receiving inpatient acute care services. The performance obligation is measured 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. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are rendered to the patient and LPCH does not believe it is required to provide additional services to the patient.

The transaction price is based on standard charges for services provided to patients, reduced by applicable contractual adjustments, discounts to under and uninsured patients, and implicit pricing concessions. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policy, and historical collection experience. The process for estimating the ultimate collectability of receivables involves historical collection experience, changes in contracts with payors, and significant assumptions and judgment.

Charity Care and Community Benefits
LPCH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. LPCH also provides services to patients under Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Such amounts are considered community benefits.

Self-Insurance Reserves and Other Liabilities
LPCH self-insures for professional, general, and cyber liability risks, postretirement medical benefits, health, dental and vision benefits, and workers' compensation. These liabilities are reflected as self-insurance reserves on the Consolidated Balance Sheets.

- ***Liability*** – LPCH is self-insured through SUMIT (LPCH and SHC Captive Insurance Company) for professional liability, general liability, and cyber liability losses under claims-made coverage. LPCH also maintains liability reserves for claims not covered by SUMIT which totals $4,098 and $2,894 for the years ended August 31, 2022 and 2021, respectively. For policy years September 1, 2014 to September 1, 2022, SUMIT retains 100% of the general and professional liability risk related to the first $15,000 per occurrence subject to a policy aggregate. The aggregate for policy years September 1, 2014 to September 1, 2020 is $25,000, the aggregate for policy year September 1, 2020 to September 1, 2021 is $27,000, and the aggregate for policy year September 1, 2021 to September 1, 2022 is $45,000. For policy years September 1, 2016 to September 1, 2021, SUMIT began purchasing a "buffer"

(in thousands of dollars)

layer that reduces SUMIT's liability for the first claim from $15,000 to $10,000 per occurrence and reduces the aggregate from $25,000 to $20,000. SUMIT did not purchase the buffer layer for policy year September 1, 2021 to September 1, 2022. The next $165,000 is transferred to various reinsurance companies rated "A" or better by AM Best rating agency.

For the policy years September 1, 2016 to September 1, 2021, SUMIT retains 100% of cyber liability risk in the amount of $1,250. For policy year September 1, 2021 to September 1, 2022, SUMIT retains 100% of cyber liability risk in the amount of $2,500. For policy years September 1, 2020 to September 1, 2022, the next $90,000 is transferred to various reinsurance companies rated "A" or better by AM Best rating agency. Policy years September 1, 2016 to September 1, 2019 maintain levels of reinsurance between $50,000 and $75,000.

- ***Postretirement Medical Benefits*** – Liabilities for post-retirement medical claims for current and retired employees are actuarially determined by SHC and allocated to LPCH.

- ***Health, Dental and Vision*** – Liabilities for health, dental and vision claims for current employees are actuarially determined.

- ***Workers' Compensation*** – LPCH purchases insurance for workers' compensation claims with a $750 deductible per occurrence. Workers' compensation insurance provides statutory limits for the State of California. An actuarial estimate of retained losses (or losses retained within the deductible) has been used to record a liability.

Fair Value of Financial Instruments
Due to the short-term nature of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and accrued salaries and related benefits, their carrying value approximates their fair value.

Transactions with the University
LPCH enters into various transactions with the University. LPCH records expense transactions where direct and incremental economic benefits are received by LPCH. Certain expenses are allocated from the University to LPCH. Allocated expenses reported as operating expenses in the Consolidated Statements of Operations and Changes in Net Assets are management's best estimates of LPCH's arms-length payment of such amounts for its market specific circumstances. To the extent that payments to the University exceed an arms-length estimated amount relative to the benefit received by LPCH, they are recorded as transfers to the University.

Concentration of Credit Risk
Financial instruments, which potentially subject LPCH and its subsidiaries to concentrations of credit risk, consist principally of cash and cash equivalents, patient accounts receivable, and investments in University managed pools and other (Note 7).

LPCH and its subsidiaries invest its cash and cash equivalents in highly rated financial instruments including insured deposits. As of August 31, 2022, LPCH and its subsidiaries have invested its cash and cash equivalents with a financial institution in excess of federal depository insurance limits.

(in thousands of dollars)

LPCH and its subsidiaries concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the patients and payers. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients, and other group insurance programs.

California Proposition 4 Funds
California Proposition 4, the Children's Hospital Bonds Initiative, authorized funds to children's hospitals for construction, expansion, renovation, and equipment projects. LPCH received and recognized $28,293 and $8,131 in contributions and other, and net assets released from restrictions for purchases of property and equipment in the Consolidated Statements of Operations and Changes in Net Assets for the years ended August 31, 2022 and 2021, respectively.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to patient accounts receivable and self-insurance reserves. Actual results may differ from those estimates.

Taxes
LPCH, PCHA, and LPFCH are California not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Tax Cuts and Jobs Act ("TCJA") was signed into law on December 22, 2017 and enacted a number of provisions which each became effective for LPCH in various fiscal years, including new excise taxes on executive compensation and net investment income. The University is subject to a 1.4% excise tax on its net investment income as defined under the Internal Revenue Code which, among other things, includes net investment income of certain related entities such as LPCH.

Revision
In 2022, LPCH identified an error in its historical accounting for donor gifts received, related net assets held and the subsequent release by LPFCH for the benefit of Stanford School of Medicine ("SoM"). These transactions should have been reflected as contributions, donor restricted net assets, and donor restricted net assets released, respectively, in the historical consolidated financial statements of LPCH, in accordance with accounting requirements for financially interrelated entities as prescribed by ASC 958-20.

The impact of these errors understated LPCH's 2021 beginning of year and end of year donor restricted net assets and total net assets by $105,832 and $89,996, respectively, with a corresponding decrease to its as reported liabilities. These errors also understated previously reported 2021 donor restricted contributions, net assets released from donor restrictions, and distributions for the benefit of SoM by $83,697, $99,533, and $99,533, respectively, resulting in a net decrease of $15,836 in the change in net assets and change in net assets with donor restrictions. Within operating cash flows, amounts previously reported as increases in net assets were overstated by $15,836 and changes in amounts reported as due to/from related parties were understated by $15,836. Management has evaluated the quantitative and qualitative impact of these errors and has concluded they were not material to LPCH's previously issued financial statements. However, LPCH has revised its previously issued 2021 financial statements to reflect

(in thousands of dollars)

the correction of the errors associated with the previous presentation and disclosure of gifts received, net assets held, and donor restricted net assets released for the benefit of SoM.

These revisions had no impact on amounts previously reported as income from operations, excess of revenues over expenses, or cash flow from operating activities.

Accounting Pronouncements
LPCH and its subsidiaries adopt new standards on a consolidated basis.

The FASB Accounting Standards Codification ("ASC") is the sole source of authoritative nongovernmental U.S. generally accepted accounting principles.

Recently Adopted Accounting Pronouncements

- ***Cloud Computing Arrangements***
  In August 2018, the FASB issued an update which allows capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract in a manner that is consistent with the capitalization of implementation costs incurred to develop or obtain internal-use software. The guidance is effective for fiscal year 2022. The update is included in the consolidated financial statements for fiscal year 2022. The adoption did not have a material impact on the consolidated financial statements.

- ***Contributed Nonfinancial Assets***
  In September 2020, the FASB issued an update which provides enhanced presentation and disclosure requirements for contributed nonfinancial assets for not-for-profit entities including additional disclosure requirements for recognized contributed services. Contributed nonfinancial assets should be presented in a separate line item in the *Consolidated Statement of Operations and Changes in Net Assets* apart from cash contributions. Additional disclosures are required about qualitative information, policy (if any) on monetizing rather than utilizing, donor-imposed restrictions and fair value measurement of contributed nonfinancial assets. The guidance is effective for fiscal year 2022. The update is included in the consolidated financial statements for fiscal year 2022. The adoption did not have a material impact on the consolidated financial statements.

- ***Defined Benefit Plans Disclosures***
  In August 2018, the FASB issued an update which adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. The guidance is effective for fiscal year 2022. The update is included in the consolidated financial statements for fiscal year 2022. The adoption did not have a material impact on the consolidated financial statements.

- ***Reference Rate Reform***
  In March 2020, the FASB issued an update which provides optional expedients for applying GAAP to contracts and other transactions that reference LIBOR or other reference rates that are expected to be discontinued because of reference rate reform. The amendments also permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement. The guidance is effective for all contracts as of March 12, 2020 through December 31, 2022. For the year ended August 31, 2022, there is no impact to LPCH and its subsidiaries since affected contracts will not transition to other benchmark rates until LIBOR sunsets in fiscal year 2023.

(in thousands of dollars)

Future Accounting Pronouncements
In November 2021, the FASB issued ASU 2021-09, Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities, which allows lessees that are not public business entities to make an accounting policy election by class of underlying asset, rather than on an entity-wide basis, to use a risk-free rate as the discount rate when measuring and classifying leases. The guidance is effective for fiscal year 2023. LPCH and its subsidiaries are currently evaluating the impact that this guidance will have on its consolidated financial statements.

3. Net Patient Service Revenue

LPCH and PCHA have agreements with third-party payors that provide for payments at amounts different from LPCH's established rates. A summary of payment arrangements with major third-party payors are as follows:

- ***Medi-Cal*** – Since July 1, 2013, inpatient services rendered to State and Managed Medi-Cal program beneficiaries are reimbursed using an All Patient Refined-Diagnosis Related Group (APR-DRG) methodology. Outpatient services are reimbursed based upon prospectively determined fee schedules.

  In addition, Disproportionate Share ("DSH") is another Medi-Cal program that provides for supplemental funding when a hospital is considered by the State to have relatively more Medi-Cal utilization than the norm. LPCH must re-qualify for DSH annually. LPCH did not qualify for DSH in 2022 nor 2021.

- ***CCS*** – The California Children's Services ("CCS") Program is a partnership between state and counties that provides medical case management for children in California diagnosed with serious chronic diseases. Currently, approximately 70 percent of CCS-eligible children are also Medi-Cal eligible. The Medi-Cal program reimburses their care. The cost of care for the other 30 percent of children is split equally between CCS Only and CCS Healthy Families. Reimbursement from these programs to providers is through APR-DRG methodology for inpatient services. Outpatient services are reimbursed based upon prospectively determined fee schedules. A portion of the CCS Only children also have other forms of coverage, such as commercial insurance. For these children, CCS is secondary to the commercial insurance or other form of coverage and is intended to limit the financial burden on families and children with chronic conditions.

- ***HMO/PPO and Other*** – Managed care contracts such as those with HMOs and PPOs reimburse LPCH at per diem rates or a percent of charges basis, which are less than full charges.

(in thousands of dollars)

Net patient service revenue (which for Medi-Cal includes Medi-Cal Fee-For-Service, Medi-Cal Managed Care payments, CCS, and provider fee revenue) for the years ended August 31 is as follows:

	2022	2021
Medi-Cal	$ 431,405	$ 391,598
HMO/PPO	1,626,472	1,537,861
Other	184,014	209,257
	$ 2,241,891	$ 2,138,716

Amounts due from Blue Cross and the State of California's Medi-Cal program represent the following of net patient accounts receivable at August 31:

	2022	2021
Blue Cross	26 %	26 %
Medi-Cal	11	12

Excluding these payors, no one payor represents more than 10% of the LPCH's patient receivables or net patient service revenue. LPCH and PCHA do not believe significant credit risks exist with these payors.

Hospital Quality Assurance Fee Program
The State of California enacted SB 239 in October 2013 which established the Hospital Quality Assurance Fee ("QAF") and Hospital Fee programs for January 1, 2014 through December 31, 2016. Subsequently, California's participation in the provider fee programs, as authorized under federal regulations, has been made permanent by the passage of Proposition 52. However, no programs beyond the July 1, 2019 through December 31, 2021 program have been approved at the Federal level by Centers for Medicare & Medicaid Services ("CMS").

CMS has approved, and LPCH has recognized as revenue supplemental payments related to the following programs and periods:

- Managed care programs for January 1, 2017 through June 30, 2019

- Fee-for-service programs for July 1, 2019 through December 31, 2021

For the years ended August 31, 2022 and 2021, respectively, LPCH recognized $93,730 and $65,992 in operating revenue for Medi-Cal Fee-For-Service ("FFS") and Managed Care program and supplemental payments provided for under the California provider fee programs.

For the years ended August 31, 2022 and 2021, respectively, LPCH recognized $24,127 and $20,553, in operating expense for QAF paid to California Department of Health Care Services ("DHCS").

(in thousands of dollars)

Portions of the managed care programs for July 1, 2019 through December 31, 2021 are awaiting CMS approval and therefore have not been recognized as revenue. The revenue from these and future managed care programs are bifurcated between pass through payments, based on modeled amounts using historical data, and directed payments, based on patient encounters during the period of the program.

For the years ended August 31, 2022 and 2021, respectively, LPCH recognized $86,628 and $108,884, in accrued liabilities related to deferred revenue received, and $22,410 and $26,850 in prepaid expenses related to fees paid under the unapproved provider fee programs to date.

4. Charity Care and Community Benefits

LPCH and its subsidiaries are committed to advocacy, outreach, education, and research to improve the health status of children and pregnant women. LPCH and its subsidiaries continually reaffirm its commitment to its community by developing innovative programs to enhance its own and the community's capacity to care for children and pregnant women. These programs include:

- Health Professions Education
- Graduate Medical Education
- Social Services Internships
- Community Programs
- Mobile Adolescent Health Services
- Perinatal Outreach Programs
- Support to Ravenswood Family Health Center
- Child Safety & Inquiry Presentation Programs
- Pediatric Weight Control Programs
- Care-a-Van for Kids
- Community Health Education
- Family and Children Health Advocacy
- Practical Assistance for Families
- Center for Youth Mental Wellness
- Child Life and Creative Arts
- Child safety programs
- Hospital Educational Advocacy Liaisons Program
- Hospital School
- Project Safety Net & HEARD Alliance

For the years ended August 31, 2022 and 2021, respectively, charity care at established rates were $5,807 and $3,626, respectively.

LPCH and its subsidiaries direct charity care and uncompensated costs of medical services to government-covered patients for the years ended August 31 is as follows:

	2022	2021
Estimated cost of charity care	$ 1,323	$ 809
Estimated cost of medical services provided to government-covered patients (not including Medicare)	284,125	216,578
	$ 285,448	$ 217,387

The estimated cost of providing charity care is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on LPCH's total expenses divided by gross patient service charges.

(in thousands of dollars)

The estimated uncompensated cost of Medi-Cal services provided to government covered patients does not include offset of funds from the QAF program. Additionally, LPCH invests in improving the health of children of San Mateo and Santa Clara counties primarily by providing health professional education and community health services.

5. Contributions Receivable

Contributions receivable and contribution revenue are included in the financial statements in the appropriate net asset category. Contributions are recorded at the discounted net present value of the future cash flows, using discount rates ranging from 1.6% to 5.3% for 2022 and 1.5% to 5.3% for 2021.

Contributions receivable at August 31 are expected to be realized in the following periods:

	2022	2021
In one year or less	$ 138,364	$ 79,879
Between one year and five years	94,257	58,269
More than five years	25,020	25,237
	257,641	163,385
Less: Discount	(10,516)	(8,512)
Less: Reserves for uncollectible pledges	(1,152)	(1,777)
Total contributions receivable, net	245,973	153,096
Less: Current portion	(138,027)	(79,329)
Contributions receivable, net of current periods	$ 107,946	$ 73,767

Contributions receivable at August 31 are to be utilized for the following purposes:

	2022	2021
Plant replacement and expansion	$ 166,854	$ 114,015
Clinical services	28,766	15,467
Education	2,286	3,382
Research	47,702	19,584
Indigent Care and Other	365	648
	$ 245,973	$ 153,096

Conditional pledges depend on the occurrence of a specified future or uncertain event. There were no conditional pledges as of August 31, 2022 and 2021, respectively.

(in thousands of dollars)

6. Investments and Investments in University Managed Pools

The composition of investments held by LPCH and its subsidiaries at August 31 is as follows:

	Fair Value	
	2022	**2021**
Board designated funds	$ 134,980	$ 153,162
Board designated funds in University managed pools	11,268	11,252
Board designated funds - subtotal	146,248	164,414
Mutual funds	90,316	89,872
Beneficial interest in investments in University managed pools	1,030,196	1,081,284
Investments and investments in University managed pools and other	$ 1,266,760	$ 1,335,570

LPFCH has board designated funds functioning as an endowment approved by LPFCH's board of directors for long term investments. As of August 31, 2022 and 2021, the balance of LPFCH board designated funds functioning as an endowment was $134,980 and $153,162, respectively.

LPCH board designated funds, board designated funds functioning as an endowment, short-term investments and other noncurrent investment funds are invested in University Merged Pool ("MP"). MP holds a variety of investments, which consist of cash and cash equivalents, government and corporate debt securities, equity securities and mutual funds, real estate, investment in partnerships, and other.

Losses of $21,952 and gains of $163,409 on LPCH's beneficial interest in investments in University Merged Pool for the years ended August 31, 2022 and 2021, respectively, represent the change in the fair value of LPCH's share of the MP.

(in thousands of dollars)

The MP is the primary investment pool in which funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value. The composition of investments in MP as of August 31, 2022 and 2021 consist of the following:

	2022	**2021**
Assets		
Cash and cash equivalents	2 %	2 %
Fixed income	7	8
Public equities	22	26
Real estate	6	6
Natural resources	4	4
Absolute return	18	16
Private equities	41	38
	100 %	100 %

7. Fair Value Measurements

U.S. Generally Accepted Accounting Principles (GAAP) defines fair value as the price received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants and establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques used under U.S. GAAP must maximize the use of observable inputs to the extent available.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Quoted prices in active markets for identical assets or liabilities, at the reporting date, without adjustment. Market price data is generally obtained from relevant exchange or dealer markets.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, 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 same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers.

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. Level 3 investments also include investments with third parties as the trustees and thus not redeemable in net asset value per share.

A financial instrument's categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(in thousands of dollars)

For alternative investments, which are principally interests in limited partnerships or similar investments in fixed income, private equities, real estate, natural resources, public equities and absolute return funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments, which is adopted as a practical expedient. The NAV is reported by external investment managers in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for any investment-related transactions such as capital calls or distributions and significant known valuation changes of its related portfolio though August 31, 2022 and 2021, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

The following table summarizes LPCH and its subsidiaries assets and liabilities measured at fair value as of August 31, 2022, based on the inputs used to value them.

	NAV	Level 1	Level 2	Level 3	Total
Assets					
Cash and cash equivalents	$ -	$ 467,061	$ -	$ -	$ 467,061
Public equities	34,751	11,653	4,111	-	50,515
Fixed income	6,266	90,355	5,373	-	101,994
Real estate	6,213	1,921	-	-	8,134
Natural resources	7,268	-	-	-	7,268
Private equities	41,768	-	-	-	41,768
Absolute return	23,164	-	-	-	23,164
Assets held by other trustees	-	-	-	15,942	15,942
Investments in University's Merged Pool	1,041,464	-	-	-	1,041,464
Assets subject to fair value leveling	$ 1,160,894	$ 570,990	$ 9,484	$ 15,942	$ 1,757,310

The following table presented the 2022 activities of financial instruments of which fair value measurement is using Level 3 inputs:

Balance at September 1, 2021	$ 19,650
Realized losses	(372)
Unrealized losses	(4,087)
Charitable trusts	751
Balance at August 31, 2022	$ 15,942

The following table summarizes LPCH and its subsidiaries assets and liabilities measured at fair value as of August 31, 2021, based on the inputs used to value them.

	NAV	Level 1	Level 2	Level 3	Total
Assets					
Cash and cash equivalents	$ -	$ 401,409	$ -	$ -	$ 401,409
Public equities	46,947	13,363	7,026	-	67,336
Fixed income	2,301	91,350	5,813	-	99,464
Real estate	8,193	2,077	-	-	10,270
Natural resources	6,543	-	-	-	6,543
Private equities	43,086	-	-	-	43,086
Absolute return	26,232	-	-	-	26,232
Assets held by other trustees	-	-	-	19,650	19,650
Investments in University's Merged Pool	1,092,536	-	-	-	1,092,536
Assets subject to fair value leveling	$ 1,225,838	$ 508,199	$ 12,839	$ 19,650	$ 1,766,526

(in thousands of dollars)

The following table presented the 2021 activities of financial instruments of which fair value measurement is using Level 3 inputs:

Balance at September 1, 2020	$	16,889
Realized losses		(590)
Unrealized gains		3,228
Charitable trusts		123
Balance at August 31, 2021	$	19,650

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2022 and 2021. For each investment category and respective valuation technique, the range of significant unobservable inputs is dependent on the nature and characteristics of the investment and may vary at each balance sheet date.

Investment Categories	Total Fair Value	Investments using Significant Unobservable Inputs	Valuation Technique	Significant Unobservable Inputs	Range Min	Range Max	Weighted Average	Impact to Valuation from an Increase in Input
2022								
Assets held by other trustees	$ 15,942	$ 313	Net present value	Discount rate	2.96 %	3.53 %	3.34 %	Decrease
Total Amount With Significant Unobservable Inputs	$ 15,942	$ 313						
2021								
Assets held by other trustees	$ 19,650	$ 450	Net present value	Discount rate	0.06 %	1.94 %	1.16 %	Decrease
Total Amount With Significant Unobservable Inputs	$ 19,650	$ 450						

The following table identifies attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of August 31, 2022:

Asset Class	Fair Value	Unfunded Commitment	Redemption Terms
Public equities	$ 34,751	$ -	Redeemable $27,642: redemptions are from 1 to 90 days and require 7 to 90 days prior notification; Not eligible for redemption: $7,109
Fixed income	6,266	-	Redeemable monthly with 5 days notification
Real estate	6,213	2,000	Redeemable $4,637 with 8 to 30 days prior notification; Not eligible for redemption $1,576
Natural resources	7,268	238	Redeemable $3,209 with 8 to 30 days prior notification; Not eligible for redemption $4,059
Private equities	41,768	13,758	Not eligible for redemption
Absolute return	23,164	-	Redeemable $19,659: redemptions are from 1 to 12 months with 45 to 90 days prior notification; Not eligible for redemption: $3,505
	$ 119,430	$ 15,996	

(in thousands of dollars)

8. Property and Equipment

Property and equipment consist of the following as of August 31, 2022 and 2021:

	2022	2021
Land and improvements	$ 32,083	$ 32,083
Buildings and improvements	1,954,449	1,930,883
Equipment	500,663	483,032
Land agreements	88,522	88,522
	2,575,717	2,534,520
Less: Accumulated depreciation	(886,225)	(797,959)
Construction-in-progress	58,531	39,446
Property and equipment, net	$ 1,748,023	$ 1,776,007

Land agreements accumulated amortization totals $20,806 and $19,039 for the years ended August 31, 2022 and 2021, respectively.

Total depreciation and amortization expense related to property and equipment for the years ended August 31, 2022 and 2021, is $93,350 and $108,251, respectively.

(in thousands of dollars)

9. Long-Term Debt

LPCH's outstanding debt at August 31 is summarized below:

	Fiscal Years of Maturity	Effective Interest 2022/2021	Outstanding Principal 2022	Outstanding Principal 2021
California Health Facilities Financing Authority				
Variable rate bonds				
Series 2014B	2034-2043	2.17%/0.46%	$ 100,000	$ 100,000
Fixed rate bonds				
Series 2022A	2023-2051	2.47%/N/A	206,670	-
Series 2022A Premium			23,683	-
Series 2017A	2019-2057	3.11%/3.08%	190,940	193,545
Series 2017A Premium			26,486	27,067
Series 2016A	2016-2033	2.48%/2.42%	53,940	57,310
Series 2016A Premium			7,949	8,935
Series 2016B	2052-2055	3.34%/3.34%	100,000	100,000
Series 2016B Premium			13,312	13,509
Series 2014A	2025-2043	3.84%/3.84%	100,000	100,000
Series 2014A Premium			6,004	6,290
Series 2012A	2022	4.32%/4.32%	-	200,000
Series 2012A Premium			-	8,585
Series 2012B	2013-2022	2.99%/2.96%	-	28,720
Series 2012B Premium			-	3,244
			828,984	847,205
Less: Current portion of long term debt			(9,110)	(9,045)
Less: Debt Issuance Cost			(7,153)	(7,244)
Long term debt			$ 812,721	$ 830,916

In 2003, LPCH entered into a master indenture of trust (the "LPCH Master Indenture") as the sole initial member of an obligated group ("LPCH Obligated Group"), the purpose of which is to provide for issuance of obligations ("Obligations") to secure indebtedness of the members of the LPCH Obligated Group on a joint and several basis.

Obligations issued under the LPCH Master Indenture are collateralized by a lien on the gross revenues of LPCH. The LPCH Master Indenture also includes various financial covenants, the most restrictive of which include maintenance of a minimum annual debt service coverage ratio, limitations on additional indebtedness, restrictions on the disposition or transfer of assets, mergers and entry into and withdrawal from the LPCH Obligated Group. During the year ended August 31, 2022, LPCH was in compliance with its financial covenants.

In July 2003, California Health Facilities Financing Authority ("CHFFA") issued, on behalf of LPCH, revenue bonds in the aggregate par amount of $115,000 (collectively, the "2003 Bonds"). The 2003 Bonds were comprised of $60,000 of Series A and B auction rate revenue bonds and $55,000 of Series C fixed rate revenue bonds.

(in thousands of dollars)

In August 2008, CHFFA issued, on behalf of LPCH, three series of revenue bonds in the aggregate par amount of $93,450 (collectively, the "2008 Bonds"). The 2008 Bonds were comprised of Series A, B and C variable rate revenue bonds. Proceeds of the 2008 Bonds were used to redeem the 2003 Series A and B bonds, refinance an outstanding bank loan and pay a portion of the costs of issuance. The 2008 Bonds initially bore interest at a weekly rate, which reset every 7 days.

In March 2012, LPCH converted the 2008 Bonds from short term variable rate bonds into five-year fixed rate put bonds with no gain or loss.

In March 2012, CHFFA issued, on behalf of LPCH, two series of revenue bonds in the aggregate par amount of $251,045 (collectively, the "2012 Bonds"). The 2012 Bonds were comprised of $200,000 Series A bonds (at a premium of $11,288) and $51,045 Series B bonds (at a premium of $8,351), each series issued as fixed rate bonds. The rates for the Series B bonds are fixed and range from 3-5% over the life of the bonds. Proceeds of the 2012 Series A bonds primarily were used for financing the acquisition, construction, and expansion of the hospital and to pay a portion of the costs of issuance. Proceeds of the 2012 Series B bonds were used for the legal defeasance and redemption of 2003 Series C bonds and to pay a portion of the costs of issuance.

In May 2014, CHFFA issued, on behalf of LPCH, two series of revenue bonds in the aggregate par amount of $200,000 (collectively, the "2014 Bonds"). The 2014 Bonds were comprised of $100,000 Series A bonds and $100,000 Series B bonds. Proceeds of the 2014 Bonds were primarily used for financing the acquisition, construction, and expansion of the hospital and to pay a portion of the costs of issuance. The 2014 Series A bonds were issued as fixed rate bonds. The rates for the Series A bonds are fixed and range from 4-5% over the life of the bonds. The 2014 Series B bonds were issued in a floating index mode with monthly interest rate resets and were directly placed with The Northern Trust Company. The 2014 Series B bonds are not subject to remarketing or tender until May 8, 2024 and are classified as long-term liabilities.

In March 2016, CHFFA issued, on behalf of LPCH, two series of revenue bonds in the aggregate par amount of $176,975 (collectively, the "2016 Bonds"). The 2016 bonds were comprised of Series A and B revenue bonds. Proceeds of the 2016 Series A were used for the legal defeasance and redemption of the 2008 Series A, B and C revenue bonds. Proceeds of the 2016 Series B were used to finance a portion of the ongoing construction, and expansion of the hospital, and to pay for the cost of issuance.

In June 2022, LPCH extended its $200,000 revolving credit agreement with Bank of America until June 2025. No amount was drawn from the line of credit as of August 31, 2022 and 2021.

In August 2017, CHFFA issued, on behalf of LPCH, a series of revenue bonds in the aggregate par amount of $200,000, with a premium of $29,069 (collectively, the "2017 Bonds"). The 2017 bonds were comprised of Series A revenue bonds. Proceeds of the 2017 Series A were used to finance a portion of the ongoing construction, equipment purchases, and improvement of the hospital, and to pay for the cost of issuance. In addition, the proceeds of the bonds were used to finance costs of routine capital and the acquisition of the long-term ground lease interest in land and improvements of a parcel located adjacent to the existing facility.

(in thousands of dollars)

In May 2022, CHFFA issued, on behalf of LPCH, forward delivery refunding bonds in the aggregate par amount of $206,670, with a premium of $23,924 (collectively, the "2022 Bonds"). Proceeds of the 2022 Bonds were used for the legal defeasance and redemption of the 2012 Series A bonds, partial refund of the 2012 Series B bonds, and payments of costs of issuance. The coupon interest rates for the Series 2022 Bonds range from 4-5% over the life of the bonds. The defeasance of 2012 Bonds resulted in an accounting gain of $6,947 recognized as gain on extinguishment of debt included in the Consolidated Statements of Operations and Changes in Net Assets.

All the bonds issued by CHFFA on behalf of LPCH are a limited obligation of the CHFFA and are payable solely from payments made by LPCH and secured by an Obligation issued pursuant to the LPCH Master Indenture.

Scheduled principal payments on outstanding debt are summarized below:

	Scheduled Principal Maturities
Year ending August 31,	
2023	$ 9,110
2024	9,570
2025	9,975
2026	10,470
2027	11,020
Thereafter	701,405
	$ 751,550

10. Retirement Plans

LPCH and its subsidiaries provide retirement benefits through defined benefit and defined contribution retirement plans covering substantially all benefit eligible employees and previously leased employees.

Defined Contribution Retirement Plan
Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan which are vested immediately to participants totaling $63,269 and $54,630 for the years ended August 31, 2022 and 2021, respectively, are included in salaries and benefits expense in the Consolidated Statements of Operations and Changes in Net Assets.

LPFCH participates in a defined contribution retirement plan covering substantially all LPFCH employees. Participants are fully vested in LPFCH's contributions after five years. LPFCH contributions for the years ended August 31, 2022 and 2021 are $1,452 and $1,211, respectively. This is included in salaries and benefits expense in the Consolidated Statements of Operations and Changes in Net Assets.

(in thousands of dollars)

Postretirement Medical Benefit Plan
LPCH currently provides health insurance coverage for certain of its employees and previously leased employees, through the SHC plan, upon retirement as early as age 55, with years of service as defined by specific criteria. The health insurance coverage for retirees who are under age 65 is the same as that provided to active employees. A Medicare supplement option is provided for retirees over age 65.

For purposes of the August 31, 2022 and 2021 retiree medical benefit plan liability valuation, LPCH has assumed future mortality according to the Pri-2012 separate employee and retiree table(s) with contingent survivor adjustments for existing survivors and white collar adjustments applied with future improvements using the MSS-2022 projection scale.

LPCH has recorded a liability totaling $30,990 and $29,764 for the years ended August 31, 2022 and 2021, respectively, included in self-insurance reserves and other liabilities on the Consolidated Balance Sheets. This represents the obligation for its employees and previously leased employees. LPCH reimburses SHC for costs related to this plan on a periodic basis, and has recorded expense of $1,028 and $1,233, and a decrease of $198 and $94 to net assets to adjust the minimum benefit liability in 2022 and 2021.

Defined Benefit Pension Plans
Certain LPCH employees and previously leased employees are covered by a noncontributory defined benefit pension plan held by SHC. SHC's defined benefit pension plan benefits are based on years of service and the employee's compensation. Contributions to the Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

SHC and LPCH have an arrangement whereby SHC assumes the pension liability of the LPCH employees and previously leased employees. However, LPCH is required to reimburse SHC for the annual expense incurred for these employees and previously leased employees. LPCH paid $124 and $135 in cash for the years ended August 31, 2022 and 2021, respectively, which represented current year pension expenses related to LPCH employees and previously leased employees.

Certain other LPCH employees and previously leased employees not covered by the previously described plans are covered by a frozen noncontributory defined benefit pension plan (the "LPCH Frozen Pension Plan"). Benefits are based on years of service and the employee's compensation. Contributions to the Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. In November 2020, the Board of Directors approved a resolution to terminate the LPCH Frozen Pension Plan. As of August 2022, the LPCH Frozen Pension Plan was fully settled, and all benefit obligations released. Plan participants elected to receive either a lump-sum distribution or to transfer benefits to a third-party annuity provider. A handful of missing participants were also transferred to the Pension Guarantee Benefit Corporation. As a result of the settlement, LPCH was relieved of any further obligations under our pension plan. During fiscal 2022, pension settlement charges totaling $1,905 were recognized, consisting of unrecognized actuarial losses previously included in the adjustment for minimum pension liability. No cash contributions were required during the fiscal year in connection with the plan termination.

(in thousands of dollars)

The following table's present information on plan assets and obligations, costs, and actuarial assumptions for the LPCH Frozen Pension Plan for the years ended August 31, 2022 and 2021, respectively.

The change in pension assets and the related change in benefit obligations, using a measurement date as of and for the years ended August 31, 2022 and 2021 are as follows:

	2022	2021
Change in plan assets		
Fair value of plan assets at beginning of year	$ 7,501	$ 8,319
Actual return on plan assets	(246)	(219)
Employer contributions	-	-
Plan Settlements	(6,712)	-
Benefits paid	(183)	(599)
Expenses paid	(347)	-
Fair value of plan assets at end of year	$ 13	$ 7,501
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 7,502	$ 8,380
Service cost	150	-
Interest cost	44	176
Actuarial gain	(454)	(455)
Plan settlements	(6,712)	-
Benefits paid	(183)	(599)
Expenses paid	(347)	-
Projected benefit obligation at end of year	$ -	$ 7,502
Funded status at end of year and net amount recognized in balance sheet	$ 13	$ (1)
Net amount recognized in balance sheet	$ 13	$ (1)
Amounts not yet reflected in net periodic benefit cost and included in other changes in net assets		
Accumulated net loss	$ -	$ (2,095)
Adjustment for minimum pension liability	-	(2,095)
Cumulative employer contributions in excess of net periodic benefit cost	-	2,094
Net amount recognized in balance sheet	$ -	$ (1)

(in thousands of dollars)

Net benefit cost related to the Plan for the years ended August 31 includes the following components:

	2022	2021
Interest cost	$ 44	$ 176
Service cost	150	-
Expected return on assets	(54)	(239)
Amortization of net loss	45	112
Settlement loss recognized	1,905	-
Total net periodic benefit cost	$ 2,090	$ 49

Changes recognized in other changes in net assets for the years ended August 31 include the following components:

	2022	2021
Net (gain) loss arising during period	$ (189)	$ 3
Amortization or settlement loss of net loss	(1,950)	(112)
Total recognized in net assets without donor restrictions	$ (2,139)	$ (109)
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ (49)	$ (60)

Actuarial Assumptions

The weighted-average assumptions used to determine benefit obligations are as follows for the years ended August 31:

	2022	2021
Weighted-average assumptions to determine benefit obligations		
Discount rate	N/A	2.34 %
Rate of compensation increase	N/A	N/A

(in thousands of dollars)

The discount rate, expected rate of return on plan assets, and the projected covered payroll growth rates used in determining the above accrued benefit costs are as follows for the years ended August 31:

	2022	2021
Weighted average assumptions to determine net periodic benefit costs		
Discount rate	2.34 %	2.19 %
Rate of compensation increase	N/A	N/A
Expected return on assets	3.00 %	3.00 %

LPCH utilizes an independent investment consulting firm to provide estimates of the future expected returns for each asset class based on LPCH's asset allocation targets. The evaluation of the future expected returns resulted in the use of 3.00% as the assumption for the expected return on plan assets.

Plan Investments
Prior to settlement in 2022, the investments of the LPCH Frozen Pension Plan have been invested to ensure stability of returns as well as to preserve the asset base of investments. Changing market cycles require flexibility in asset allocation to allow movement of capital within the asset classes for the purpose of increasing investment return and/or reducing risk. The Plan is terminated as of the measurement date. The remaining asset is 100% cash as of August 31, 2022.

Fair Value of Plan Assets
The Plan assets measured at fair value are as follows for the year ended August 31, 2022:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 13	$ -	$ -	$ 13
Fixed income	-	-	-	-
Total plan assets	$ 13	$ -	$ -	$ 13

The Plan assets measured at fair value are as follows for the year ended August 31, 2021:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 1,376	$ -	$ -	$ 1,376
Fixed income	6,125	-	-	6,125
Total plan assets	$ 7,501	$ -	$ -	$ 7,501

(in thousands of dollars)

Concentration of Risk
LPCH manages a variety of risks, including market, credit, and liquidity risks, across plan assets through our investment managers. Concentration of risk is defined as an undiversified exposure to one of the above–mentioned risks that increases the exposure of the loss of plan assets unnecessarily. LPCH management minimizes risk by diversifying exposure to such risks across a variety of instruments, markets, and counterparties.

11. Endowment and Donor Restricted Net Assets

The endowment is intended to generate investment income that can be used to support LPCH and LPFCH's current operating and strategic initiatives. LPCH invests the majority of the endowments in the University's managed pool, and LPFCH invests the endowments in other long-term investments.

LPCH's Board of Directors has adopted the University's investment and spending policies for its donor-restricted and board designated funds functioning as an endowment that provide for annual amounts (payout) to be distributed to appropriate restricted funds supporting operating and strategic activities of LPCH. Through the combination of investment strategy and payout policy, the hospital is striving to provide a reasonably consistent payout from the endowment to support operations, while preserving the purchasing power of the endowment adjusted for inflation. Consistent with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), when determining the appropriate payout, the Board considers the purposes of the endowment, the duration and preservation of the endowment, general economic conditions, the possible effect of inflation or deflation, the expected return from income and the appreciation of investments, and investment policy.

The current University Board of Trustees approved targeted spending rate is 5.5%, which was adopted by LPCH. The payout amount is determined by applying a smoothing rule designed to mitigate the impact of short-term market volatility on the flow of funds to support LPCH's operations. The Board has the authority to override the smoothing rule and set the payout rate directly. In fiscal year 2021 in response to COVID-19 concerns, the Board approved the creation of two payout rates, one for student aid funds and the other for non-student aid funds. The sources of payout are earned income on endowment assets, realized capital gains, and funds functioning as endowment, as needed and as available.

In addition, LPFCH has a policy of appropriating for distribution each year an amount determined annually based on budget needs. The annual distribution is expected to average no more than 5% of the endowment fund's fair value. For individual years, it is expected to fall within a target range of 4.75% to 5.25% of the endowment fund's average fair value over the prior 12 quarters. Unspent program budget may be spent in future years subject to certain limits. LPFCH board of directors may also appropriate an amount outside this target range. Accordingly, depending on anticipated activity and timing of the grant opportunities, actual spending may fall outside of the range. In establishing this policy, the LPFCH considered the long term expected return on its endowment. Over the long term, the LPFCH expects the current spending policy to allow its endowment to grow at a rate of expected inflation. This is consistent with the LPFCH's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through investment return.

(in thousands of dollars)

LPCH classifies as donor restricted net assets (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net unrealized losses on donor-restricted and board designated funds functioning as an endowment are classified as a reduction to net assets with donor restrictions or board designated funds functioning as an endowment until such time as the fair value equals or exceeds historic value. The aggregate amount by which fair value was below historic value was approximately $0 as of August 31, 2022 and 2021.

Changes in LPCH's endowment with donor restrictions for the years ended August 31, 2022 and 2021 are as follows:

	2022	2021
Endowment with donor restrictions, beginning of year	$ 509,796	$ 390,056
Investment returns	(17,340)	130,731
Amounts distributed for operations	(9,370)	(18,799)
Contributions received from donors	3,103	8,393
Transfer	(8,480)	(329)
Other	(500)	(256)
Net (decrease) increase in endowment	(32,587)	119,740
Endowment with donor restrictions, end of year	$ 477,209	$ 509,796

Changes in LPCH's endowment without donor restrictions for the years ended August 31, 2022 and 2021 are as follows:

	2022	2021
Board designated funds functioning as an endowment, beginning of year	$ 162,832	$ 128,521
Investment returns	(12,436)	39,886
Additional endowment received	-	32
Endowment assets appropriated for expenditure	(5,746)	(5,607)
Net (decrease) increase in endowment	(18,182)	34,311
Board designated funds functioning as an endowment, end of year	$ 144,650	$ 162,832

Return Objectives and Risk Parameters
LPCH has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets is to generate optimal total return while maintaining an appropriate level of risk for LPCH.

(in thousands of dollars)

Strategies Employed for Achieving Investment Objectives
To achieve its long-term rate of return objectives, LPCH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). LPCH targets a diversified asset allocation that places greater emphasis on types of investments as described in Note 7 to achieve its long-term objectives within prudent risk constraints. Portfolio asset allocation targets as well as expected risk, return and correlation amongst the asset classes are reevaluated annually by the asset manager and reported to the Board of Directors.

Donor Restricted Net Assets
Net assets with donor restrictions consist of investments held and invested to generate income to support the following purposes at August 31:

	2022	2021
With donor restrictions		
Education	$ 58,204	$ 62,889
Plant replacement and equipment	258,627	176,088
Clinical services	397,666	407,409
Research	56,750	39,139
Indigent care and other	77,692	82,425
	$ 848,939	$ 767,950

12. Related-Party Transactions

Transactions with SHC
LPCH and SHC share certain functions, including various information systems, occupational health, managed care contracting, and supply chain. The costs for these shared services, which are included in purchased services in the Consolidated Statements of Operations and Changes in Net Assets, are allocated between SHC and LPCH based on management's best estimates. LPCH's total cost for shared services was $41,688 and $48,826 for the years ended August 31, 2022 and 2021, respectively.

LPCH also purchases various services from SHC. These services include radiation therapy, apheresis, and laboratory. The cost of these services, which is included in purchased services in the Consolidated Statements of Operations and Changes in Net Assets, is charged back to LPCH based on a percentage of charges intended to approximate costs or a cost per procedure. LPCH's total cost for services purchased from SHC was $44,258 and $41,296 for the years ended August 31, 2022 and 2021, respectively.

In addition to the services described above, LPCH purchases services from SHC that include services provided by interns and residents, maintenance and certain operating expenses, including utilities and capital projects. These services totaled $46,660 and $44,362 for the years ended August 31, 2022 and 2021, respectively, and are included in purchased services and other expenses in the Consolidated Statements of Operations and Changes in Net Assets or in property and equipment, net, in the Consolidated Balance Sheets.

(in thousands of dollars)

Transactions with the University
LPCH records operating expense or equity transfers to account for transactions with the University. LPCH purchases services from the University including telecommunications, transportation, certain utilities, rent, legal, and internal audit. Costs incurred by LPCH for these services purchased from the University were approximately $25,984 and $31,863 for the fiscal years ended August 31, 2022 and 2021, respectively, and are recorded as professional services, purchased services, and other expenses in the Consolidated Statements of Operations and Changes in Net Assets for those fiscal years or as property and equipment, net, in the Consolidated Balance Sheets. The total recoveries from the University, including rent and certain salary and benefits, were $9,555 and $7,367 as of August 31, 2022 and 2021, respectively.

Transactions with Stanford School of Medicine (SoM)
Services purchased from the University and specifically, the Stanford School of Medicine, include clinical services that benefit LPCH, including hospital-based physicians, medical direction, and medical library services. Payment for these services is based on management's best estimate of market value. On September 1, 2006, LPCH and the University entered into a Professional Services Agreement ("PSA") which assigned to LPCH the right to bill and collect all revenue related to pediatric and obstetric clinical services on behalf of the Stanford School of Medicine. In return, LPCH reimburses the University for the services provided by the physician faculty. The PSA is revised periodically, most recently as of September 1, 2022, and it is in effect for six years through August 31, 2028. The expense recorded related to payments and accruals for all of these services amounted to approximately $378,057 and $357,392 for the fiscal years ended August 31, 2022 and 2021, respectively. The collections received from external parties by LPCH as agent on behalf of SoM was recorded in other revenue and purchased services. The amounts were $10,513 and $9,714 as of August 31, 2022 and 2021, respectively.

Transactions with LPFCH
The activities of LPFCH are included in LPCH consolidated financial statements and LPFCH also serves as a fundraising agent for SoM. LPFCH has received a total of $14,050 and $8,844 from SoM in Purchased Services for development fees as of August 31, 2022 and 2021, respectively.

13. Leases

LPCH's lease portfolio primarily consists of operating leases for real estate and equipment under noncancellable lease agreements expiring at various dates. The amounts in the tables below do not reflect payments for leases that have not yet commenced.

The following table discloses the supplemental cash flow information related to leases for the year ended August 31:

	2022	2021
Operating cash flows from operating leases	$ 36,123	$ 34,119

(in thousands of dollars)

Leasing Activities - Lessee

The following table presents the components of our lease expense and the classification of such expenses in our Consolidated Statements of Operations and Changes in Net Assets for the year ended August 31:

	2022	2021
Operating lease cost	$ 37,589	$ 36,578
Variable lease cost	6,784	6,194
Short-term lease cost	781	626
Sublease income	(6,808)	(6,931)
Total lease cost	$ 38,346	$ 36,467

For the years ended August 31, 2022 and 2021, the right-of-use assets obtained in exchange for new lease obligations are as follows:

	2022	2021
Operating leases	$ 9,479	$ 30,976

The following table includes the weighted-average lease terms and discount rates for operating leases as of August 31:

	2022	2021
Weighted-average remaining lease term-operating leases (years)	7.87	8.63
Weighted-average discount rate-operating leases	2.19 %	2.15 %

(in thousands of dollars)

The following table includes the future maturities of lease payments for operating leases for periods subsequent to August 31, 2022:

		Operating Leases
Year Ending August 31,		
2023	$	35,965
2024		32,699
2025		28,997
2026		27,190
2027		23,089
Thereafter		92,147
Total lease payments		240,087
Less: Imputed interest		(20,685)
Present value of lease liabilities		219,402
Less: Current lease liabilities		(31,468)
Total long-term lease liabilities	$	187,934

Leasing Activities - Lessor
LPCH leases space in its medical office buildings to others under noncancelable operating lease arrangements. The following table includes the future maturities of lease payments for operating leases that will be received for periods subsequent to August 31, 2022:

Year Ending August 31,		
2023	$	865
2024		563
2025		308
2026		214
2027		127
Thereafter		-
	$	2,077

14. Commitments and Contingencies

LPCH is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on LPCH's financial position.

As with many medical centers across the country, information security and privacy is a growing risk area based on developments in the law and expanding mobile technology practices. LPCH has policies, procedures, and training in place to safeguard protected information, but select incidents have occurred in the past and may occur in the future involving potential or actual disclosure of such information (including, for example, certain identifiable information relating to patients). In most cases, there has been no evidence of unauthorized access to, or use/disclosure of, such

(in thousands of dollars)

information, yet laws may require reporting to potentially affected individuals and federal and state governmental agencies. Governmental agencies have the authority to investigate and request further information about an incident or safeguards, to cite LPCH for a deficiency or regulatory violation, and/or require payment of fines, corrective action, or both. California law also allows a private right to sue for a breach of medical information. The cost of such possible consequences has not been material to date to LPCH, and LPCH management does not believe that any future consequences of these incidents will be material to its 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 future government review and interpretation, as well as to regulatory actions unknown or unasserted at this time. Government activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. LPCH is subject to similar regulatory reviews, and while such reviews may result in repayments and/or civil remedies that could have a material effect on LPCH's financial results of operations in a given period, management believes that such repayments and/or civil remedies would not have a material effect on LPCH's financial position.

LPCH has signed several information technology contracts with commitments from fiscal year 2020 to fiscal year 2028. The total commitment for these information technology contracts was approximately $40,280 as of August 31, 2022.

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. Facilities classified by the State of California as noncompliant in the event of an earthquake must be retrofitted, replaced or removed from acute-care service by applicable deadlines prior to 2020 or 2030. There are separate and distinct seismic safety standards for structural frame performance and for nonstructural element performance. LPCH complies with the structural frame requirements for the existing hospital building allowing its use indefinitely past 2030, provided potable water and wastewater holding is added no later than January 1, 2030. LPCH has retrofitted discrete areas of the existing hospital for compliance to the nonstructural standards as of 2020.

LPCH relies upon services located in the SHC hospital facility. Through the construction of a New Stanford Hospital (opened in 2019), as well as through planned retrofits of the existing SHC facility, SHC services that support LPCH will be compliant to all seismic safety regulations within available deadlines. Amendments of the Hospital Seismic Safety Act via Senate Bill (SB) 90, allowed the California Department of Health Care Access and Information (HCAI) to approve an extension of the structural compliance deadline for SHC's seismically deficient Structural Performance Category (SPC) -1 buildings until January 1, 2020 due to its status as a trauma center. All SPC-1 buildings have been reclassified by the State to OSHPD-1R status, and therefore not subject to the seismic safety requirements under SB 1953. No required hospital functions are located in these buildings. Additionally, new regulations introduced in 2019 have enabled SHC to construct new bed extension structures that will enable relocation of all acute inpatient services into fully seismically compliant structures by 2028. Finally, the seismicity at the hospital campus has been re-classified to a lower intensity level, resulting in lower risk during an earthquake. Consequently, the compliance deadline for nonstructural retrofits has been extended to January 1, 2030. SHC is on-track to complete the required retrofits by that date.

(in thousands of dollars)

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with Stanford Hospital, LPCH and Stanford University as part of the Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project will rebuild Stanford Hospital and expand LPCH to assure adequate capacity, meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the Stanford School of Medicine and remodeling of Hoover Pavilion. The construction of the LPCH portion of the Renewal Project is completed (including the fifth floor). As of August 31, 2022, the remaining commitment for the Renewal Project was approximately $135.

LPCH continues to invest in facilities and systems required to continue to provide the highest quality children's services to the community it serves, including upgrading hospital rooms and equipment. The total commitment related to these upgrades is approximately $49,276 as of August 31, 2022.

LPCH is directly liable under irrevocable letters of credit totaling $11,649 at August 31, 2022, including $10,228 required as security for the workers' compensation deductible plan as described in Note 2, and $1,422 for security for construction, operation and maintenance of certain utility facilities. No amounts have been drawn on these letters of credit as of August 31, 2022. LPCH also serves as guarantor for $1,000 loan of South County Community Health Center in East Palo Alto.

Approximately 43% of LPCH employees are covered by collective bargaining arrangements. These employees are members of two unions; approximately 11% are covered by an agreement which expires on September 6, 2023; the other 32% are covered by a collective bargaining agreement with the Committee for Recognition of Nursing Achievement ("CRONA") that will expire on March 31, 2025. The nurses represented by CRONA commenced a strike on April 25, 2022. A new collective bargaining agreement was signed on May 1, 2022, and the nurses returned to work on May 3, 2022. This labor action had a significant financial impact on LPCH's operations in fiscal year 2022. Such impact includes lost patient revenue due to the transfer of certain patients to outside hospitals, as well as cost of contracting with certain staffing agencies for temporary nurses.

In 2013, LPCH became the guarantor on a building lease under which the total rent payments over the remaining life of the lease, which expires in 2027 will be approximately $5,517 as of August 31, 2022.

In 2021, LPCH signed a 6-year equipment lease with Omnicell, Inc. The lease will not commence until March 2023. Total lease obligation is approximately $9,000.

Coronavirus Disease ("COVID-19")
The global COVID-19 pandemic (which began in fiscal year 2020) continued to impact LPCH's patients, communities, employees and business operations in fiscal year 2022. Earlier this year, the global economy began reopening and robust economic activity supported a continued recovery. However, the emergence of COVID-19 variants and related surges in COVID-19 cases have contributed to certain setbacks to reopening and could trigger the reinstatement of restrictions, including mandatory business shut-downs, travel restrictions, reduced business operations and social distancing requirements. Patient volumes and the related revenue for most of the LPCH's health care services were impacted by the pandemic given the activities of children were still not

(in thousands of dollars)

back to pre-pandemic levels throughout fiscal year 2021. Also, broad economic factors including unemployment rates, adjusted consumer spending, and supply chain interruptions impacted patient volumes, service mix and payor mix.

The Coronavirus Aid, Relief, and Economic Security Ace (the "CARES Act") provides stimulus in the form of financial aid to cover emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. LPCH received $2,050 and $6,655 in fiscal year 2022 and fiscal year 2021, respectively, under the CARES Act in the form of grants through the Public Health and Social Services Emergency fund for lost revenues and related expenses attributable to COVID-19. These payments are recorded as other revenue in the Consolidated Statements of Operations and Changes in Net Assets. LPCH recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services ("HHS"), governing the funding that was publicly available at August 31, 2021. CARES Provider Relief Funds are subject to future audit adjustments based on compliance audits and potential changes to statutes.

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022, pursuant to the Paycheck Protection Program and Health Care Enhancement Act. Through August 31, 2022, LPCH has deferred $10,993 in employer payroll taxes that is recorded in accrued salaries and related benefits.

There are other governmental funding and relief sources, in addition to other components of the CARES Act not mentioned, that LPCH continues to assess for eligibility. The possible impact of these funding and relief sources are not reflected in the financial performance through August 31, 2022.

On September 9, 2020, the State of California enacted the COVID-19 Supplemental Paid Sick Leave which requires California employers to provide eligible employees with up to 80 hours of paid sick leave for COVID-19-related reasons. While the original law expired on December 31, 2020, California passed subsequent legislation to extend the program through December 31, 2022. LPCH recorded $9,385 and $3,041 in salaries and benefits for fiscal year 2022 and fiscal year 2021, respectively, for amounts paid in connection with this program.

15. Functional Expenses

Expenses are included in the table below, by functional and natural classification type based on the nature and purpose of the expense incurred. Expenses for patient services includes inpatient, outpatient, and community-based services to patients. Management and general includes administration, financial services, legal, and other functions that support the organization. Fundraising includes expenses incurred for the purpose of our fundraising organization and related activities. Expenses attributable to more than one functional expense category are allocated. Allocated expenses include depreciation, facility operations such as engineering, housekeeping, and utilities, and shared services such as supply chain. These expenses are allocated to the functional categories based on relative proportion of patient services and administrative expenses directly attributable to those categories.

(in thousands of dollars)

Expenses incurred comprise the following program services for the years ended August 31:

	2022			
	Patient Services	Management and General	Fundraising	Total
Salaries and benefits	$ 1,044,197	$ 101,339	$ 18,229	$ 1,163,765
Professional services	4,897	10,842	3,029	18,768
Supplies	210,723	736	76	211,535
Purchased services	614,033	42,621	914	657,568
Provider fee	24,127	-	-	24,127
Other	113,100	38,707	4,785	156,592
Interest	-	31,042	-	31,042
Depreciation and amortization	87,632	6,263	531	94,426
Total functional expense	$ 2,098,709	$ 231,550	$ 27,564	$ 2,357,823

	2021			
	Patient Services	Management and General	Fundraising	Total
Salaries and benefits	$ 906,298	$ 102,374	$ 14,538	$ 1,023,210
Professional services	2,646	8,253	2,621	13,520
Supplies	200,078	792	55	200,925
Purchased services	600,775	42,959	941	644,675
Provider fee	20,553	-	-	20,553
Other	101,764	28,857	5,751	136,372
Interest	31,982	-	-	31,982
Depreciation and amortization	101,400	7,059	882	109,341
Total functional expense	$ 1,965,496	$ 190,294	$ 24,788	$ 2,180,578

16. Subsequent Events

LPCH and its subsidiaries have evaluated subsequent events occurring between the end of the most recent fiscal year and December 6, 2022, the date the consolidated financial statements were issued.

Report of Independent Auditors

To the Board of Directors
Lucile Salter Packard Children's Hospital at Stanford

We have audited the consolidated financial statements of Lucile Salter Packard Children's Hospital at Stanford and its subsidiaries as of and for the years ended August 31, 2022 and 2021 and our report thereon appears on pages one and two of this document which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information as of and for the years ended August 31, 2022 and 2021 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP
San Francisco, California
December 6, 2022

Lucile Salter Packard Children's Hospital at Stanford
Consolidating Balance Sheet
August 31, 2022

(in thousands of dollars)	2022 LPCH	PCHA	LPFCH	Elimination	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 426,694	$ 416	$ 34,704	$ -	$ 461,814
Short term investments in Stanford University ("University") managed pools	-	-	-	-	-
Patient accounts receivable	580,006	10,934	-	-	590,940
Interest in net assets of Foundation	94,760	-	-	(94,760)	-
Contributions receivable	353	-	137,674	-	138,027
Due from related parties	52,184	(10,012)	(13,272)	248	29,148
Other receivables	7,836	791	20	-	8,647
Prepaid expenses, inventory and other	58,139	896	746	(2,051)	57,730
Total current assets	1,219,972	3,025	159,872	(96,563)	1,286,306
Investments	77,486	-	12,830	-	90,316
Investments in University managed pools	1,030,196	-	-	-	1,030,196
Board designated funds in University managed pools and other	11,268	-	134,980	-	146,248
Assets limited as to use, held by trustee	-	-	-	-	-
Property and equipment, net	1,741,896	2,965	3,162	-	1,748,023
Beneficial interest in trusts, net	15,943	-	12,793	-	28,736
Interest in net assets of Foundation, net of current portion	87,820	-	-	(87,820)	-
Contributions receivable, net of current portion	-	-	107,946	-	107,946
Right of use lease assets	183,866	10,670	12,955	-	207,491
Equity method investments and other assets	(69,237)	8,888	89	121,519	61,259
Total assets	$ 4,299,210	$ 25,548	$ 444,627	$ (62,864)	$ 4,706,521
Liabilities and Net Assets					
Current liabilities					
Accounts payable, accrued liabilities, and deferred provider fee	$ 210,519	$ 1,332	$ 20,312	$ (2,101)	$ 230,062
Accrued salaries and related benefits	130,069	3,579	3,177	-	136,825
Third-party payor settlements	32,587	-	-	-	32,587
Current portion of long-term debt and borrowing on revolving credit facility	9,110	-	-	-	9,110
Current portion of long-term right of use lease liability	27,425	4,043	-	-	31,468
Self-insurance reserves and other liabilities	15,145	1,159	-	-	16,304
Total current liabilities	424,855	10,113	23,489	(2,101)	456,356
Self-insurance reserves and other liabilities, net of current portion	60,841	-	-	-	60,841
Long-term right of use lease liability, net of current portion	167,532	6,935	13,467	-	187,934
Long-term debt, net of current portion	812,721	-	-	-	812,721
Total liabilities	1,465,949	17,048	36,956	(2,101)	1,517,852
Net assets					
Without donor restrictions	2,070,262	8,495	135,053	125,920	2,339,730
With donor restrictions	762,999	5	272,618	(186,683)	848,939
Total net assets	2,833,261	8,500	407,671	(60,763)	3,188,669
Total liabilities and net assets	$ 4,299,210	$ 25,548	$ 444,627	$ (62,864)	$ 4,706,521

The accompanying note is an integral part of the accompanying consolidating information.

Lucile Salter Packard Children's Hospital at Stanford
Consolidating Balance Sheet
August 31, 2021

(in thousands of dollars)	2021 LPCH	PCHA	LPFCH	Elimination	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 370,377	$ 62	$ 27,755	$ -	$ 398,194
Short term investments in Stanford University ("University") managed pools	1	-	-	-	1
Patient accounts receivable	570,129	9,631	-	-	579,760
Interest in net assets of Foundation	33,586	-	-	(33,586)	-
Contributions receivable	409	-	78,920	-	79,329
Due to related parties	23,446	(8,915)	(1,626)	154	13,059
Other receivables	37,026	979	18	-	38,023
Prepaid expenses, inventory and other	62,065	741	570	(2,134)	61,242
Total current assets	1,097,039	2,498	105,637	(35,566)	1,169,608
Investments	78,469	-	11,403	-	89,872
Investments in University managed pools	1,081,283	-	-	-	1,081,283
Board designated funds in University managed pools and other	11,252	-	153,162	-	164,414
Property and equipment, net	1,772,294	3,272	441	-	1,776,007
Beneficial interest in trusts, net	19,651	-	13,111	-	32,762
Interest in net assets of Foundation, net of current portion	52,918	-	-	(52,918)	-
Contributions receivable, net of current portion	-	-	73,767	-	73,767
Right of use lease assets	204,727	12,163	14,325	-	231,215
Equity method investments and other assets	(56,002)	9,918	84	107,548	61,548
Total assets	$ 4,261,631	$ 27,851	$ 371,930	$ 19,064	$ 4,680,476
Liabilities and Net Assets					
Current liabilities					
Accounts payable, accrued liabilities, and deferred provider fee	$ 199,275	$ 2,324	$ 20,702	$ (2,550)	$ 219,751
Accrued salaries and related benefits	123,095	3,196	2,877	-	129,168
Third-party payor settlements	21,597	-	-	-	21,597
Current portion of long-term debt and borrowing on revolving credit facility	9,045	-	-	-	9,045
Current portion of long-term right of use lease liability	24,448	4,699	-	-	29,147
Self-insurance reserves and other liabilities	13,279	939	-	-	14,218
Total current liabilities	390,739	11,158	23,579	(2,550)	422,926
Self-insurance reserves and other liabilities, net of current portion	70,184	461	-	-	70,645
Long-term right of use lease liability, net of current portion	189,610	7,766	14,671	-	212,047
Long-term debt, net of current portion	830,916	-	-	-	830,916
Total liabilities	1,481,449	19,385	38,250	(2,550)	1,536,534
Net assets					
Without donor restrictions	2,103,404	8,466	151,777	112,345	2,375,992
With donor restriction	676,778	-	181,903	(90,731)	767,950
Total net assets	2,780,182	8,466	333,680	21,614	3,143,942
Total liabilities and net assets	$ 4,261,631	$ 27,851	$ 371,930	$ 19,064	$ 4,680,476

The accompanying note is an integral part of the accompanying consolidating information.

Lucile Salter Packard Children's Hospital at Stanford
Consolidating Statement of Operations and Changes in Net Assets
Year Ended August 31, 2022

(in thousands of dollars)	2022 LPCH	PCHA	LPFCH	Elimination	Consolidated
Operating revenues					
Net patient service revenue	$ 2,034,121	$ 114,040	$ -	$ -	$ 2,148,161
Provider fee	93,730	-	-	-	93,730
Other revenue	63,699	9,954	28,628	(559)	101,722
Net assets released from restrictions used for operations	19,547	15	-	-	19,562
Total operating revenues and other support	2,211,097	124,009	28,628	(559)	2,363,175
Operating expenses					
Salaries and benefits	1,098,598	44,172	20,995	-	1,163,765
Professional services	13,840	811	4,117	-	18,768
Supplies	197,384	14,090	61	-	211,535
Purchased services	602,460	68,939	304	(14,135)	657,568
Provider fee	24,127	-	-	-	24,127
Other	141,912	7,779	6,901	-	156,592
Interest	31,042	-	-	-	31,042
Depreciation and amortization	92,004	2,189	233	-	94,426
Total operating expenses	2,201,367	137,980	32,611	(14,135)	2,357,823
(Loss) income from operations	9,730	(13,971)	(3,983)	13,576	5,352
Interest income	2,182	-	121	-	2,303
(Loss) Income and gains from University managed pools and other	(19,094)	-	(12,864)	-	(31,958)
Income tax credit (expense)	223	-	-	-	223
Extinguishment of long term debt	6,947	-	-	-	6,947
Other components of net periodic postretirement cost	(3,371)	-	-	-	(3,371)
(Deficiency) Excess of revenues over expenses	(3,383)	(13,971)	(16,726)	13,576	(20,504)
Changes in net assets without donor restrictions					
Net assets released from restrictions used for purchases of property and equipment	29,111	-	-	-	29,111
Adjustment for minimum pension liability	1,897	-	-	-	1,897
Transfers (to) from University and other	(60,766)	14,000	-	-	(46,766)
Contributions released to transfer to LPCH and SoM	-	-	109,840	(49,309)	60,531
Contributions transferred to LPCH and SoM	-	-	(109,840)	49,309	(60,531)
Increase (decrease) in net assets without donor restrictions	(33,141)	29	(16,726)	13,576	(36,262)
Changes in net assets with donor restrictions					
Contributions and other	74,349	20	201,932	(60,730)	215,571
Increase in interests in net assets of LPFCH	85,709	-	-	(85,709)	-
Losss from University managed pools	(12,396)	-	-	-	(12,396)
Change in value of beneficial interest in remainder trusts	(3,670)	-	(1,375)	1,178	(3,867)
Net assets released from restrictions for operations	(19,547)	(15)	-	-	(19,562)
Net assets released from restrictions used for purchases of property and equipment	(29,111)	-	-	-	(29,111)
Contributions released to transfer to LPCH and SoM	-	-	(109,840)	49,309	(60,531)
Transfers to University and other	(9,115)	-	-	-	(9,115)
Increase (decrease) in net assets with donor restrictions	86,219	5	90,717	(95,952)	80,989
Net Increase (decrease) in net assets	53,078	34	73,991	(82,376)	44,727
Net assets					
Beginning of year	2,780,183	8,466	333,680	21,613	3,143,942
End of year	$ 2,833,261	$ 8,500	$ 407,671	$ (60,763)	$ 3,188,669

The accompanying note is an integral part of the accompanying consolidating information.

Lucile Salter Packard Children's Hospital at Stanford
Consolidating Statement of Operations and Changes in Net Assets
Year Ended August 31, 2021

(in thousands of dollars)	2021 LPCH	PCHA	LPFCH	Elimination	Consolidated
Operating revenues					
Net patient service revenue	$ 1,969,363	$ 103,361	$ -	$ -	$ 2,072,724
Provider fee	65,992	-	-	-	65,992
Other revenue	53,023	15,115	22,325	732	91,195
Net assets released from restrictions used for operations	29,307	-	-	-	29,307
Total operating revenues and other support	2,117,685	118,476	22,325	732	2,259,218
Operating expenses					
Salaries and benefits	967,728	38,777	16,705	-	1,023,210
Professional services	9,621	544	3,355	-	13,520
Supplies	186,935	13,951	39	-	200,925
Purchased services	589,928	67,815	425	(13,493)	644,675
Provider fee	20,553	-	-	-	20,553
Other	119,657	8,566	8,149	-	136,372
Interest	31,982	-	-	-	31,982
Depreciation and amortization	106,406	2,655	280	-	109,341
Total operating expenses	2,032,810	132,308	28,953	(13,493)	2,180,578
(Loss) income from operations	84,875	(13,832)	(6,628)	14,225	78,640
Interest income	1,872	-	997	-	2,869
Income and gains from University managed pools and other	166,358	-	39,396	-	205,754
Income tax credit (expense)	704	6	-	-	710
Other components of net periodic postretirement cost	(1,637)	-	-	-	(1,637)
Excess (Deficiency) of revenues over expenses	252,172	(13,826)	33,765	14,225	286,336
Changes in net assets without donor restrictions					
Net assets released from restrictions used for purchases of property and equipment	10,270	-	-	-	10,270
Adjustment for minimum pension liability	(94)	-	-	-	(94)
Transfers (to) from University and other	(62,079)	14,000	-	-	(48,079)
Contributions released to transfer to LPCH and SoM	-	-	135,159	(35,626)	99,533
Contributions transferred to LPCH and SoM	-	-	(135,159)	35,626	(99,533)
Increase (decrease) in net assets without donor restrictions	200,269	174	33,765	14,225	248,433
Changes in net assets with donor restrictions					
Contributions and other	39,416	-	150,833	(35,469)	154,780
Increase (Decrease) in interests in net assets of LPFCH	31,667	-	-	(31,667)	-
Income and gains from University managed pools	129,446	-	-	-	129,446
Change in value of beneficial interest in remainder trusts	3,326	-	968	(968)	3,326
Net assets released from restrictions for operations	(29,307)	-	-	-	(29,307)
Net assets released from restrictions for purchases of property and equipment	(10,270)	-	-	-	(10,270)
Contributions released to transfer to LPCH and SoM	-	-	(135,159)	35,626	(99,533)
Transfers from University and other	47	-	-	-	47
Increase (decrease) in net assets with donor restrictions	164,325	-	16,642	(32,478)	148,489
Net Increase (decrease) in net assets	364,594	174	50,407	(18,253)	396,922
Net assets					
Beginning of period	2,415,588	8,292	283,273	39,867	2,747,020
End of period	$ 2,780,182	$ 8,466	$ 333,680	$ 21,614	$ 3,143,942

The accompanying note is an integral part of the accompanying consolidating information.

(in thousands of dollars)

1. Accompanying Consolidating Information

The accompanying consolidating information presents Consolidating Balance Sheets as of August 31, 2022 and 2021, and Consolidating Statements of Operations and Changes in Net Assets for the years then ended.

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental consolidating information is presented only for purposes of additional analysis and not as a presentation of the financial position and results of the individual entities.

Consolidating Information Revision

As discussed in Note 2 to the consolidated financial statements, in fiscal year 2022, certain errors in the previously issued fiscal year 2021 financial statements were identified pertaining to the proper presentation for the accounting of transactions between financially interrelated entities. Accordingly, the fiscal year 2021 consolidating financial information has been revised to correct this presentation. As part of the revisions to the fiscal year 2021 consolidating information, certain LPFCH amounts were also adjusted to correctly present donor restricted contributions, donor restricted net assets, releases of net assets with donor restrictions, and contributions released to transfer to LPCH and SoM. Additionally, certain LPCH amounts were reclassified to properly reflect its interest in and changes in its interest in the net assets of LPFCH, and the Eliminations totals were adjusted to properly reflect the consolidated totals. The impact of all of the adjustments to the consolidating statement of net assets as of August 31, 2021 reduced LPFCH total liabilities by $181,469 and increased LPFCH total net assets by $181,469 and increased the Eliminations total liabilities by $91,473 and reduced Eliminations total net assets by $91,473. The impact of all of the adjustments to the consolidating statement of changes in net assets for the year ended August 31, 2021 increased the LPFCH total beginning of year net assets by $164,827, increased total LPFCH change in net assets by $16,642, reduced the Eliminations beginning of year net assets by $58,996 and reduced the Eliminations total change in net assets by $32,477. The effects of the adjustments on the consolidated statement of net assets and the consolidated statement of changes in net assets as of and for the year ended August 31, 2021 are described in Note 2.

Management has evaluated the quantitative and qualitative impact of these errors and has concluded they were not material to the prior year as issued statements.