# St. Jude Children's Research Hospital, Inc. American Lebanese Syrian Associated Charities, Inc.

Combined Financial Statements as of and
for the Years Ended June 30, 2023 and 2022, and
Independent Auditors' Report

# ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
# AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

## TABLE OF CONTENTS

**Deloitte & Touche LLP**
6075 Poplar Avenue
Suite 350
Memphis, TN 38119-0112
USA

Tel:+1 901 322 6700
Fax:+1 901 322 6799
www.deloitte.com

## INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of
St. Jude Children's Research Hospital, Inc. and the Board of Directors of
American Lebanese Syrian Associated Charities, Inc.:

### Opinion

We have audited the combined financial statements of St. Jude Children's Research Hospital, Inc. and its wholly owned subsidiaries, and American Lebanese Syrian Associated Charities, Inc. (affiliated organizations and collectively, the "Organization"), which comprise the combined statements of financial position as of June 30, 2023 and 2022, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the results of its activities, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 the Organization'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Deloitte & Touche LLP

March 26, 2024

## ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
## AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

### COMBINED STATEMENTS OF FINANCIAL POSITION
### AS OF JUNE 30, 2023 AND 2022
### (In 000s)

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| CASH AND CASH EQUIVALENTS | $ 436,103 | $ 426,274 |
| RECEIVABLES: | | |
| Contributions | 52,857 | 88,345 |
| Patient care services—net | 15,090 | 15,584 |
| Grants and contracts | 41,473 | 46,886 |
| Other | 13,111 | 7,007 |
| UNRESTRICTED INVESTMENTS | 6,962,928 | 6,309,707 |
| RESTRICTED INVESTMENTS | 1,377,301 | 1,311,248 |
| ASSETS LIMITED AS TO USE | 3,340 | 3,235 |
| PROPERTY AND EQUIPMENT—Net | 1,477,845 | 1,291,328 |
| OTHER ASSETS—Net | 241,757 | 95,215 |
| TOTAL | $ 10,621,805 | $ 9,594,829 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES: | | |
| Accounts payable | $ 126,902 | $ 113,634 |
| Accrued expenses | 147,781 | 132,712 |
| Annuity obligations | 45,307 | 45,556 |
| Other liabilities | 99,893 | 27,258 |
| Total liabilities | 419,883 | 319,160 |
| NET ASSETS: | | |
| Without donor restrictions | 8,909,052 | 8,036,162 |
| With donor restrictions | 1,292,870 | 1,239,507 |
| Total net assets | 10,201,922 | 9,275,669 |
| TOTAL | $ 10,621,805 | $ 9,594,829 |

See notes to combined financial statements.

## ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
## AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

### COMBINED STATEMENTS OF ACTIVITIES
### FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
### (In 000s)

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUES, GAINS, AND OTHER SUPPORT: | | | | | | |
| Support: | | | | | | |
| Contributions of Cash and other financial assets | $ 1,750,125 | $ 6,059 | $ 1,756,184 | $ 1,792,157 | $ 6,273 | $ 1,798,430 |
| Contributions of non financial assets | 12,308 | - | 12,308 | 13,494 | - | 13,494 |
| Bequests | 665,068 | 1,064 | 666,132 | 573,837 | 10,238 | 584,075 |
| Special events—net | 22,938 | - | 22,938 | 19,239 | - | 19,239 |
| Total support | 2,450,439 | 7,123 | 2,457,562 | 2,398,727 | 16,511 | 2,415,238 |
| Revenues: | | | | | | |
| Net patient service revenue | 153,766 | - | 153,766 | 118,236 | - | 118,236 |
| Research grants and contracts | 147,585 | - | 147,585 | 153,205 | - | 153,205 |
| Net investment income (loss) | 405,865 | 73,431 | 479,296 | (321,217) | (66,349) | (387,566) |
| Net assets released from restrictions | 27,191 | (27,191) | - | 66,236 | (66,236) | - |
| Other revenues | 60,010 | - | 60,010 | 32,519 | - | 32,519 |
| Total revenues | 794,417 | 46,240 | 840,657 | 48,979 | (132,585) | (83,606) |
| Total revenues, gains, and other support | 3,244,856 | 53,363 | 3,298,219 | 2,447,706 | (116,074) | 2,331,632 |
| EXPENSES: | | | | | | |
| Program services: | | | | | | |
| Patient care services | 662,358 | - | 662,358 | 551,616 | - | 551,616 |
| Research | 675,380 | - | 675,380 | 585,569 | - | 585,569 |
| Education, training, and community services | 311,651 | - | 311,651 | 256,278 | - | 256,278 |
| Total program services | 1,649,389 | - | 1,649,389 | 1,393,463 | - | 1,393,463 |

(Continued)

## ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
## AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

### COMBINED STATEMENTS OF ACTIVITIES
### FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
### (In 000s)

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Supporting services: | | | | | | |
| Fundraising | $ 403,601 | $ - | $ 403,601 | $ 356,737 | $ - | $ 356,737 |
| Administrative and general—Hospital | 108,525 | - | 108,525 | 92,317 | - | 92,317 |
| Administrative and general—ALSAC | 209,917 | - | 209,917 | 186,475 | - | 186,475 |
| Total supporting services | 722,043 | - | 722,043 | 635,529 | - | 635,529 |
| Total expenses | 2,371,432 | - | 2,371,432 | 2,028,992 | - | 2,028,992 |
| LOSS FROM DISPOSAL OF PROPERTY AND EQUIPMENT | (534) | - | (534) | (524) | - | (524) |
| REVENUE OVER EXPENSES | 872,890 | 53,363 | 926,253 | 418,190 | (116,074) | 302,116 |
| CHANGE IN NET ASSETS | 872,890 | 53,363 | 926,253 | 418,190 | (116,074) | 302,116 |
| NET ASSETS—Beginning of year | 8,036,162 | 1,239,507 | 9,275,669 | 7,617,972 | 1,355,581 | 8,973,553 |
| NET ASSETS—End of year | $ 8,909,052 | $1,292,870 | $ 10,201,922 | $ 8,036,162 | $ 1,239,507 | $ 9,275,669 |

See notes to combined financial statements.

(Concluded)

## ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
## AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

### COMBINED STATEMENT OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED JUNE 30, 2023
### (In 000s)

| | Program Services | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|
| | Patient Care Services | Research | Education, Training, and Community Service | Total Program Services | Fundraising | Administrative and General | Total Supporting Services | Total Program and Supporting Services |
| SALARIES AND BENEFITS | $320,106 | $380,337 | $ 70,679 | $ 771,122 | $110,073 | $121,423 | $231,496 | $1,002,618 |
| CAMPAIGN MATERIALS AND EXPENSES | - | - | 100,979 | 100,979 | 130,901 | 23,678 | 154,579 | 255,558 |
| PROFESSIONAL FEES AND CONTRACT SERVICES | 142,606 | 125,208 | 40,124 | 307,938 | 16,820 | 43,287 | 60,107 | 368,045 |
| SUPPLIES | 118,856 | 71,343 | 2,062 | 192,261 | - | 3,822 | 3,822 | 196,083 |
| TELEPHONE | 1,606 | 997 | 1,994 | 4,597 | 7,030 | 3,531 | 10,561 | 15,158 |
| MAILING COSTS | - | - | 51,220 | 51,220 | 76,688 | 20,027 | 96,715 | 147,935 |
| OCCUPANCY | 17,045 | 21,456 | 3,330 | 41,831 | 6,749 | 15,421 | 22,170 | 64,001 |
| PRINTING AND PUBLICATIONS | - | - | 508 | 508 | 1,814 | 610 | 2,424 | 2,932 |
| TRAVEL, MEETINGS, AND LOCAL TRANSPORTATION | 10,017 | 4,948 | 8,382 | 23,347 | 8,409 | 4,114 | 12,523 | 35,870 |
| SERVICE FEES | - | - | 2,973 | 2,973 | 8,655 | 10,802 | 19,457 | 22,430 |
| EQUIPMENT AND SOFTWARE MAINTENANCE | - | - | 6,673 | 6,673 | 14,758 | 12,149 | 26,907 | 33,580 |
| MISCELLANEOUS | 16,080 | 7,622 | 17,151 | 40,853 | 20,689 | 21,755 | 42,444 | 83,297 |
| TOTAL BEFORE DEPRECIATION AND AMORTIZATION | 626,316 | 611,911 | 306,075 | 1,544,302 | 402,586 | 280,619 | 683,205 | 2,227,507 |
| DEPRECIATION AND AMORTIZATION | 36,042 | 63,469 | 5,576 | 105,087 | 1,015 | 37,823 | 38,838 | 143,925 |
| TOTAL FUNCTIONAL EXPENSES | $662,358 | $675,380 | $311,651 | $1,649,389 | $403,601 | $318,442 | $722,043 | $2,371,432 |

See notes to combined financial statements.

# ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
# AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

## COMBINED STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2022
## (In 000s)

| | Program Services | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|
| | Patient Care Services | Research | Education, Training, and Community Service | Total Program Services | Fundraising | Administrative and General | Total Supporting Services | Total Program and Supporting Services |
| SALARIES AND BENEFITS | $285,755 | $331,726 | $ 61,077 | $ 678,558 | $100,031 | $104,113 | $204,144 | $ 882,702 |
| CAMPAIGN MATERIALS AND EXPENSES | - | - | 91,996 | 91,996 | 120,833 | 21,679 | 142,512 | 234,508 |
| PROFESSIONAL FEES AND CONTRACT SERVICES | 110,030 | 102,488 | 27,479 | 239,997 | 14,926 | 32,802 | 47,728 | 287,725 |
| SUPPLIES | 95,476 | 68,062 | 2,019 | 165,557 | - | 3,615 | 3,615 | 169,172 |
| TELEPHONE | 967 | 849 | 1,968 | 3,784 | 7,228 | 3,049 | 10,277 | 14,061 |
| MAILING COSTS | - | - | 40,571 | 40,571 | 60,686 | 17,551 | 78,237 | 118,808 |
| OCCUPANCY | 14,631 | 18,496 | 2,888 | 36,015 | 6,329 | 12,692 | 19,021 | 55,036 |
| PRINTING AND PUBLICATIONS | - | - | 1,072 | 1,072 | 4,355 | 1,246 | 5,601 | 6,673 |
| TRAVEL, MEETINGS, AND LOCAL TRANSPORTATION | 6,750 | 2,037 | 2,235 | 11,022 | 4,179 | 1,811 | 5,990 | 17,012 |
| SERVICE FEES | - | - | 2,505 | 2,505 | 8,649 | 8,713 | 17,362 | 19,867 |
| EQUIPMENT AND SOFTWARE MAINTENANCE | - | - | 4,180 | 4,180 | 10,083 | 7,249 | 17,332 | 21,512 |
| MISCELLANEOUS | 3,770 | 4,839 | 12,075 | 20,684 | 18,194 | 21,753 | 39,947 | 60,631 |
| TOTAL BEFORE DEPRECIATION AND AMORTIZATION | 517,379 | 528,497 | 250,065 | 1,295,941 | 355,493 | 236,273 | 591,766 | 1,887,707 |
| DEPRECIATION AND AMORTIZATION | 34,237 | 57,072 | 6,213 | 97,522 | 1,244 | 42,519 | 43,763 | 141,285 |
| TOTAL FUNCTIONAL EXPENSES | $551,616 | $585,569 | $256,278 | $1,393,463 | $356,737 | $278,792 | $635,529 | $2,028,992 |

See notes to combined financial statements.

# ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
# AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

## COMBINED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
## (In 000s)

| | 2023 | 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | $ 926,253 | $ 302,116 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 143,924 | 141,285 |
| Net realized and unrealized investment (gains) loss | (435,364) | 435,223 |
| Loss on disposal of property and equipment | 534 | 524 |
| Noncash lease expense | 579 | - |
| Endowment contributions and interest, and other transfers | (10,404) | (17,406) |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | (12,217) | (51,577) |
| Patient care and other receivables | (197) | (8,842) |
| Other assets | (44,665) | (36,923) |
| Accounts payable and accrued expenses | (5,945) | 14,010 |
| Annuity obligations | 4,632 | 7,670 |
| Net cash provided by operating activities | 567,130 | 786,080 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments | (3,429,155) | (3,986,129) |
| Sale of investments | 3,180,978 | 3,553,321 |
| Capital expenditures | (319,837) | (213,378) |
| Proceeds from disposal of property and equipment | 309 | 172 |
| Net cash used in investing activities | (567,705) | (646,014) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Endowment contributions and bequests | 2,023 | 9,150 |
| Endowment interest and dividends | 8,381 | 8,256 |
| Net cash provided by financing activities | 10,404 | 17,406 |
| NET CHANGE IN CASH AND EQUIVALENTS | 9,829 | 157,472 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 426,274 | 268,802 |
| CASH AND CASH EQUIVALENTS—End of year | $ 436,103 | $ 426,274 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES—Capital expenditures, on account | $ 11,447 | $ (2,469) |
| NON-CASH INVESTING AND FINANCING ACTIVITIES—Investments of securities | $ (47,705) | $ (27,736) |

See notes to combined financial statements.

## 1. ORGANIZATION

St. Jude Children's Research Hospital, Inc. and its wholly owned subsidiaries (collectively, the "Hospital") is a research, treatment, and education center whose mission is to save children's lives by finding the causes of catastrophic illnesses, improving related treatments, and finding cures for their diseases. No family ever pays the Hospital for the care their child receives. More than 8,300 patients are seen at the Hospital yearly, most of whom are treated on a continuing outpatient basis as part of ongoing research programs and account for approximately 77,000 hospital visits per year. The current basic science and clinical research at the Hospital includes work in gene therapy, chemotherapy, the biochemistry of normal and cancerous cells, radiation treatment, blood diseases, resistance to therapy, viruses, hereditary diseases, influenza, pediatric AIDS, and physiological effects of catastrophic illnesses. The Hospital includes the subsidiaries of Children's GMP, LLC, St. Jude Children's Research Hospital Graduate School of Biomedical Sciences, LLC, and St. Jude Children's Research Hospital Home Care, LLC.

The accompanying combined financial statements include the accounts of the Hospital and its affiliated support organization, American Lebanese Syrian Associated Charities, Inc. ("ALSAC"), collectively referred to herein as the Organization. ALSAC is a not-for-profit corporation established to build awareness and raise funds to support the operations of the Hospital. The bylaws of ALSAC provide that all funds raised, except for funds required for its operations and funds restricted as to other uses by donors, be distributed to or be held for the exclusive benefit of the Hospital. All intercompany transactions between the Hospital and ALSAC have been eliminated in combination.

Operations are overseen by the boards of governors and directors (the "Board"). The research activities of the Hospital are reviewed annually by a scientific advisory board composed of internationally prominent physicians and scientists.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The Organization's combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Cash and Cash Equivalents**—Cash and cash equivalents include currency and deposits with financial institutions used as working capital to fund daily operations with original maturities of three months or less. Interest income associated with cash and cash equivalents is reported in other revenue.

**Net Assets**—Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

***Net Assets Without Donor Restrictions***—Net assets available for use in general operations and not subject to donor restrictions. The governing board has not designated from net assets without donor restrictions, other than the board-designated endowment fund and board-designated self-insurance funding, any other net assets to be restricted for specific purposes.

***Net Assets With Donor Restrictions***—Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

**Revenue Recognition**—In general, revenues are recognized at fair market value in the period received and/or unconditionally given. Below are the specific criteria for recognition of the main revenue streams for the Organization:

***Contributions and Other Support***—All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported in the combined statements of activities as contributions with donor restrictions.

Unconditional promises to give cash and other assets are reported at estimated fair market value at the date the promise is received. Conditional promises to give are recognized when the conditions, as stipulated by the donor, are substantially met. The gifts are reported as contributions with donor restrictions in the combined statements of activities if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. Donor-restricted contributions for which restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying combined financial statements.

***Bequests***—A charitable bequest is a written statement in a will directing that a gift be made to charity upon the death of the donor. Amounts are recorded at actual value or fair market value upon notification of the settlement of the estate. Amounts are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes, are reported in the combined statements of activities as bequests with donor restrictions.

***Special Events***—Special event revenue, which primarily includes fundraising dinners and galas where the primary purpose is to raise awareness for the mission of the Hospital, are reported net of fundraising costs and direct costs of benefits to donors, and are considered to be available for unrestricted use, unless specifically restricted by the donor.

***Net Patient Service Revenues***—Net patient service revenues are recorded at the transaction price estimated by the Hospital to reflect the total consideration due from third-party payors in exchange for providing goods and services in patient care. These services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on the Hospital’s standard charges for the goods and services provided, with a reduction recorded for price concessions related to third party contractual arrangements as well as other implicit price concessions.

The Hospital’s net patient service revenues during the years ended June 30, 2023 and 2022, have been presented in the following table based on an allocation of the estimated transaction price with the third-party payor between the primary classification of insurance coverage:

| **(In 000s)** | **2023** | **2022** |
|---|---|---|
| Medicaid | $ 82,198 | $ 48,745 |
| Commercial insurance | 37,464 | 33,404 |
| Blue Cross | 30,214 | 32,577 |
| Other third-party payors | 3,890 | 3,510 |
| Total | $ 153,766 | $ 118,236 |

The Hospital received a one-time provider program settlement of $33.7 million during 2023 which is included in the Medicaid classification above.

The Hospital has agreements with governmental and other third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. The differences between the estimated reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net patient service revenue. Final settlements under certain programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods when such adjustments become known. Adjustments to previous reimbursement estimates are accounted for as contractual allowance adjustments and reported in the period in which final settlements are determined. In addition, the Hospital is reimbursed by non-governmental payors using a variety of payment methodologies.

A summary of the basis for reimbursement with major third-party payors follows:

***Commercial***—The Hospital has entered into reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, per diem amounts, case rates, fee schedules, and discounts from established charges.

***Medicaid***—Inpatient and outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the beneficiaries’ state of residence.

***Blue Cross***—All acute care services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates.

**Accounts Receivable, Patient Care Services**—The Hospital reports accounts receivable from patient care services at net realizable value based on certain assumptions determined for each major third-party payor type. For third-party payors, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. These estimates are adjusted for expected recoveries and any anticipated changes in trends. As no family ever pays for the care their child receives at the Hospital, there are no self-pay accounts receivable.

Accounts receivable, patient care services and their net realizable value can be impacted by significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage. The Hospital continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue, aged accounts receivable by third-party payor and other related factors.

Accounts receivable, patient care services, have been reduced by estimated provisions for contractual adjustments and uncollectible accounts of $146.7 million and $97.9 million in 2023 and 2022, respectively.

**Charity Care**—The Hospital provides charity care to patients for all charges in excess of those realizable from third-party payors. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

As a result, charges foregone, based on established rates, totaled approximately $141.4 million and $90.5 million in 2023 and 2022, respectively. Management's estimate of costs incurred to provide charity care were $134.1 million and $86.5 million in 2023 and 2022, respectively.

In addition to the patient care benefits described above, the Hospital provides significant research benefits to the broader community and other outreach programs.

**Research Grants and Contracts**—The Hospital records revenues related to research grants and contracts in two portfolio categories based on the source of the funds:

Government Sponsors provide funding for research largely to advance knowledge for public or academic benefit in direct support of the Hospital's mission. The Hospital primarily considers these sponsored research agreements to be contributions (nonreciprocal transactions). The Hospital recognizes grant and contract revenue associated with contributions from government sponsors as earned when the conditions are met (allowable expenses have been incurred). Additionally, a small portion of government-sponsored awards qualify as exchange (reciprocal) transactions. The transaction price for exchange transactions is the stated amount of the award. The Hospital recognizes grants and contracts revenue related to these exchange transactions at the time services are provided. Government sponsored research grants and contracts revenues were approximately $127.0 million and $129.2 million for the years ended June 30, 2023 and 2022, respectively.

Private Sponsors consist of private agencies, professional associations, private foundations, corporate foundations and corporations. The Hospital recognizes revenue associated with contributions from private sponsors as the conditions are met. Additionally, some private sponsor awards qualify as exchange (reciprocal) transactions. The transaction price for exchange transactions is the stated amount of the award. The Hospital recognizes grants and contracts revenue related to these exchange transactions at the time services are provided. Private sponsored research grants and contracts revenues were approximately $20.5 million and $24.0 million for the years ended June 30, 2023 and 2022, respectively.

**Facilities and Administrative (F&A) Costs Recovery**—The Hospital recognizes F&A costs recovery as revenue. This activity represents reimbursement, primarily from the federal government, of F&A costs on government sponsored activities. Federal F&A cost recovery rates were either 79.5% or 82% in 2023 and varied based on the date of the award. Research grants and contracts revenue were approximately $45.8 million and $43.6 million for the years ended June 30, 2023 and 2022, respectively.

**Investments and Investment Income**—Investments where a readily determinable fair value exists are stated at fair value. Fair value is determined using the closing prices for investments traded on the applicable domestic or global stock exchange. Investments including alternative investments, limited partnerships, and similar interests, with no readily determinable fair value, are stated at estimated fair value based on financial statements and other information received from the fund managers. However, the recorded value could differ from the value that would have been used had a readily available market existed for such investments. Investments also include cash and cash equivalents not used as working capital to fund daily operations and bank certificates of deposit with original maturities of 105 days to 5 years (with yields ranging from 1.40%–2.99%) and funds invested in money market securities with maturities of three months or less, but such funds are held for the long-term benefit of the Hospital. All related gains and losses are included in net investment income in the combined statements of activities.

ALSAC employs an endowment distribution policy that establishes the amount of endowment investment income that may be used to fund operations. Under this policy, the amount is determined annually and is comprised of no more than 7% of the previous three years' calendar year-end average endowment market values. The endowed chairs distribution is restricted by pre-prescribed annual spending limits. The total value may be distributed to fund operations and is reported as net assets released from restriction in the combined statements of activities. Actual endowment investment income from donor-restricted endowments is reported as a change in net assets with donor restrictions in the combined statements of activities. All other investment income is reported as changes in net assets without donor restrictions in the combined statements of activities.

ALSAC has significant exposure to a number of risks, including interest rate, market, and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the combined financial statements.

**Other Revenue**—Other revenue includes technology licensing, net of payouts to inventors, interest earned on cash, and other miscellaneous revenue. The Organization recognizes revenue from other sources as the related services are provided and/or amounts are otherwise earned upon satisfaction of the performance obligation in accordance with the terms of the underlying agreements. Technology licensing included in other revenue was approximately $27.7 million and $22.1 million for the years ended June 30, 2023 and 2022, respectively. Interest income included in other revenue was approximately $14 million and $0 for the years ended June 30, 2023 and 2022, respectively. Gains and losses on investments included in other revenue were approximately $7.1 million and less than $0.1 million for the years ended June 30, 2023 and 2022, respectively.

**Assets Limited as to Use**—Assets limited as to use include assets set aside by the Board for self-insurance funding, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

**Other Assets**—The Organization applies the provision of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles—Goodwill and Other*. This standard provides guidance on the accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract and requires entities to account for such costs consistent with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Capitalized costs are amortized on a straight-line basis over contractual terms of 3 to 8 years. Costs capitalized, net of amortization included in Other assets-net were approximately $49.9 million and $24.7 million in 2023 and 2022, respectively. Prepaid expenses included in Other assets-net were approximately $57.6 million and $48.8 million in 2023 and 2022, respectively. Inventories included in Other assets-net were approximately $19.3 million and $20.8 million in 2023 and 2022, respectively.

**Deferred Compensation**—The Organization maintains four non-qualified deferred compensation plans that allow participants to defer receipt of a portion of their compensation. One of the plans vests over 10-20 years or attainment of the age 65. The Organization applies the provisions of ASC Topic 710, *Compensation—General*. This standard provides guidance on the accounting for deferred compensation including funds held in rabbi trusts. The investments associated with deferred compensation plans are approximately $79 million as of June 30, 2023 and are included in Other assets-net . The liability for deferred compensation plans was approximately $68 million as of June 30, 2023 and is included in Other liabilities. The non-qualified deferred compensation plans include a mix of mutual funds with Teachers Insurance and Annuity Association of America, Principal, American Funds and Vanguard. The investments are classified as level 1 investments See Note 6 for the definition of level 1 investments.

**Property and Equipment**—Property and equipment are stated at cost. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets. Amortization of leasehold improvements is provided over the life of either the asset or the related lease, whichever is shorter. Computer software is stated at cost and depreciated on a straight-line basis over estimated useful lives of 3 to 10 years.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions in the combined statements of activities. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as support with donor restrictions in the combined statements of activities. Gifts of long-lived assets are reported when placed in service. Contributions restricted to the purchase of property and equipment which restrictions are met within the same year as received are reported as increases in net assets without donor restrictions in the accompanying financial statements. There were no such gifts recorded in 2023 or 2022.

**Impairment of Long-Lived Assets**—The Organization accounts for impairment of long-lived assets in accordance with Accounting Standards Codification (ASC) Topic 360, *Property, Plant, and Equipment*. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate the book value of the asset may not be recoverable. In accordance with ASC 360, the Organization uses an estimate of future undiscounted cash flows of the related assets over the remaining life in assessing whether the assets are recoverable. The determination of the impairment, if any, for property and equipment is based on Level 3 inputs (see Note 6, Fair Value Measurement). No impairment was recorded in 2023 or 2022.

**Income Taxes**—The Organization qualifies as tax exempt under existing provisions of the Internal Revenue Code (the “Code”), and its income is generally not subject to federal or state income taxes.

The Organization is not considered a private foundation as defined in Section 509(a) of the Code; and therefore, individual donors are entitled to the maximum charitable deduction under Section 170(c) of the Code.

As of June 30, 2023, the Organization had not identified any uncertain tax positions under ASC Topic 740, *Income Taxes*, requiring adjustments to its combined financial statements. In the event the Organization were to recognize interest and penalties related to uncertain tax positions, it would be recognized in the combined financial statements as a general expense. Generally, tax years ending 2020 through 2023 are open to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

**Concentration of Credit Risk**—ALSAC has deposits with financial institutions, which exceed federal depository insurance limits by approximately $21.6 million and $11.0 million at June 30, 2023 and 2022, respectively. ALSAC has not experienced any losses on such deposits, and management considers the risk of loss to be minimal.

The Hospital routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

The mix of accounts receivable from third-party payors, net of contractual allowances, as of June 30, 2023 and 2022, is as follows:

| | **2023** | **2022** |
|---|---|---|
| Commercial insurance | 45 % | 39 % |
| Medicaid | 30 | 30 |
| Blue Cross | 25 | 30 |
| Other third-party payors | - | 1 |
| Total | 100 % | 100 % |

**Contributed Services**—Unpaid volunteers make significant contributions of their time, principally in fundraising activities. The value of these services is not recognized in the combined financial statements since they do not meet certain applicable criteria specified under guidance issued under ASC Topic 958, *Not-for-Profit Entities*.

**Advertising**—The Organization incurred $225.2 million and $208.3 million of media spend during the years ended June 30, 2023 and 2022, respectively. These costs are recorded in Fundraising expenses in the statements of activities and are expensed as incurred.

**Functional Expense Allocation and Joint Costs**—The Organization allocates costs among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

| **Expense Category** | **Method of Allocation** |
|---|---|
| Salaries and Benefits | Estimates of Time and Effort/Gross Salaries |
| Campaign Materials and Expenses | Actual Content for Television, Nature of Activity for Others |
| Professional Fees and Contract Services | Estimates of Time and Effort/Nature of Activity |
| Supplies | Purchase Requisitions |
| Telephone | Nature of Activity/Full Time Equivalent |
| Mailing Costs | Actual Content |
| Occupancy | Nature of Activity/Square Footage |
| Printing and Publications | Actual Content for Television, Nature of Activity for Others |
| Travel, Meetings, and Local Transportation | Nature of Activity/Travel Expenses |
| Service Fees | Estimates of Time and Effort |
| Equipment and Software Maintenance | Nature of Activity |
| Miscellaneous | Nature of Activity |
| Depreciation and Amortization | Nature of Activity/Square Footage/Cost Center Assignments |

ALSAC conducts a number of solicitation activities that jointly benefit its education, training and community service program objectives, as well as fundraising and administrative and general activities. For the years ended June 30, 2023 and 2022, ALSAC incurred joint costs of approximately $199.3 million and $169.7 million, respectively, for direct mail and television. Of those costs, $110.3 million and $94.2 million were allocated to program costs, $71.2 million and $59.2 million to fundraising costs, and $17.8 million and $16.1 million to administrative and general costs for the years ended June 30, 2023 and 2022, respectively.

**Use of Estimates**—The preparation of combined financial statements in conformity with GAAP requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts for pledges, valuation of investments, allowances for contractual adjustments, estimated professional and general liability costs, reserves for workers' compensation claims, reserves for employee health care claims, and the allocation of joint costs to functional expense categories. In addition, laws and regulations governing various federal-sponsored and state-sponsored reimbursement programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs may change in the near term.

**New Accounting Standards Adopted**—In 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), and has issued subsequent amendments to this guidance. The ASU requires the recognition of substantially all lease assets and lease liabilities on the balance sheet, including those previously classified as operating leases under ASC 840. Lessees are required to recognize a lease liability for the obligation to make lease payments and a right-of-use (ROU) asset for the right to use the underlying asset for all leases with terms of more than twelve months. The Organization adopted the ASU effective July 1, 2022, using the modified retrospective approach. Comparative periods presented in the consolidated financial statements continue to be presented under ASC 840. Leases with an initial term of 12 months or less will be excluded from the balance sheet, and the Organization continues to recognize lease expense ("short term lease expense") for these leases on a straight-line basis over the applicable lease term.

Under ASC 842, expenses related to leases determined to be operating leases are recognized on a straight-line basis, while expenses related to leases determined to be financing leases are recognized based on an effective interest method in which interest and amortization are presented separately in the statement of activities. Upon adoption of ASC 842 as of July 1, 2022, the Organization recognized $32.0 million of ROU assets and related operating lease liabilities that are reported in other assets and other liabilities on the statements of financial position. The Organization has no finance leases or leases formerly classified as capital leases. ROU assets and lease liabilities were recognized upon adoption based on the present value of lease payments over the lease term. As most of the Organization's leases do not provide an implicit rate, the Organization used a risk-free discount rate in determining the present value of lease payments. The adoption of the new standard did not have a material impact on the financial statements. Refer to Note 15 for additional information and related disclosures.

**Subsequent Events**—The Organization has evaluated the impact of significant subsequent events through March 26, 2024, the date the combined financial statements were available to be issued, that require recognition or disclosure. On October 5, 2023, the Hospital entered into a Memorandum of Understanding (MoU) with a designated procurement agency for fiscal years 2024 through 2027. The Hospital's total estimated contributions for the duration of the MoU are $107 million. On October, 25, 2023, the Hospital provided the initial contribution of $12 million in accordance with the MoU.

**Recent Accounting Pronouncements**—In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The new rules eliminate the probable initial recognition threshold and, instead, reflect an entity's current estimate of all expected credit losses. This ASU is effective for fiscal years beginning after December 15, 2022. The Organization expects the new rules to apply to its trade receivables but does not expect the adoption of the new accounting rules to have a material impact on the combined statements of activities, combined statements of functional expenses, or combined statements of cash flows; however, it anticipates changes to controls and procedures, as applicable, to ensure compliance with the new accounting rules.

## 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

| **(In 000s)** | **2023** |
|---|---|
| Financial assets at year end: | |
| Cash and cash equivalents | $ 436,103 |
| Receivables | 122,531 |
| Assets limited as to use | 3,340 |
| Unrestricted investments | 6,962,928 |
| Restricted investments | 1,377,301 |
| Total financial assets | 8,902,203 |
| Less amounts not available to be used within one year: | |
| Cash and cash equivalents | (26,736) |
| Assets limited as to use | (3,340) |
| Unrestricted Investments | (1,477,757) |
| Restricted investments | (1,377,301) |
| Receivables not due within one year | (3,963) |
| Financial assets available within one year | $ 6,013,106 |

The Organization maintains cash balances to meet the short-term operating needs of both ALSAC and the Hospital, plus funding for construction project needs within one year of the balance sheet date.

ALSAC also maintains two lines of credit totaling $300 million which expire in March 2024 and January 2025. There were no amounts outstanding against the lines of credit as of June 30, 2023 and 2022.

## 4. CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions and other receivables as of June 30, 2023 and 2022, consist of the following:

| **(In 000s)** | **2023** | **2022** |
|---|---|---|
| Amounts due in: | | |
| Less than one year | $ 62,597 | $ 94,849 |
| One or more years | 3,963 | 3,320 |
| Total contributions and other receivables | 66,560 | 98,169 |
| Less: Allowance for uncollectible pledges | (592) | (2,817) |
| Total contributions and other receivables—net | $ 65,968 | $ 95,352 |

## 5. INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments as of June 30, 2023 and 2022, is as follows:

| (In 000s) | 2023 | 2022 |
|---|---|---|
| Global equity | $ 3,206,604 | $ 2,356,571 |
| Marketable alternative | 1,969,662 | 2,252,243 |
| Real assets | 295,806 | 306,233 |
| Private equity | 1,887,197 | 1,821,437 |
| Fixed income | 891,749 | 769,381 |
| Cash | 89,211 | 115,090 |
| Total | $ 8,340,229 | $ 7,620,955 |

Assets limited as to use under self-insurance funding arrangements represent the Hospital's ownership of a percentage of assets in a diversified pooled investment portfolio (the "Portfolio") based on the market value after adjusting for the time-weighted holding period of any contributions and withdrawals to the Portfolio. The Portfolio is administered by a third-party custodian and maintained for the exclusive use of the Hospital. Assets limited as to use were approximately $3.3 million and $3.2 million for the years ended June 30, 2023 and 2022, respectively.

The composition of net investment income for the years ended June 30, 2023 and 2022, is as follows:

| (In 000s) | 2023 | 2022 |
|---|---|---|
| Net realized and unrealized investment gains (losses) | $ 428,273 | $ (435,243) |
| Interest and dividend income | 55,074 | 49,919 |
| Investment expenses | (4,051) | (2,242) |
| Net investment income (loss) | $ 479,296 | $ (387,566) |

Realized and unrealized gains and losses are included in net investment income in the accompanying statements of activities.

## 6. FAIR VALUE MEASUREMENT

The Organization accounts for assets and liabilities measured at fair value using ASC Topic 820, *Fair Value Measurement*. Certain assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis, generally as a result of impairment charges. Under ASC 820, fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets measured at fair value on a nonrecurring basis include impairment of long-lived assets.

The guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

Investments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices, generally, will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. In the absence of actively quoted prices and observable inputs, ALSAC estimates prices based on available historical data and near-term future pricing information that reflects its market assumptions.

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

***Level 1***—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

***Level 2***—Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

***Level 3***—Inputs are unobservable and significant to the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

**Net Asset Value (NAV)**—For these assets, ASU No. 2015-07, *Fair Value Measurement—Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* eliminated the requirement that investments for which fair value is measured at NAV per share (or its equivalent) using the practical expedient be categorized in the fair value hierarchy.

Most investments classified within the NAV categories consist of the shares/units (or equivalent ownership interest in partner's capital) in investment funds rather than direct ownership in the funds' underlying assets.

The investments in investment funds (in partnership format) by major category as of June 30, 2023 and 2022, were fully funded and the fair value was as follows:

| | 2023 | | | |
|---|---|---|---|---|
| **(In 000s)** | **Level 1** | **Level 2** | **Net Asset Value** | **Total** |
| Global equity | $ 755,065 | $ - | $ 2,451,539 | $ 3,206,604 |
| Marketable alternative | 5,340 | - | 1,964,322 | 1,969,662 |
| Real assets | 1,090 | - | 294,716 | 295,806 |
| Private equity | - | - | 1,887,197 | 1,887,197 |
| Fixed income | 726,440 | 165,309 | - | 891,749 |
| Cash | 89,211 | - | - | 89,211 |
| Total | $ 1,577,146 | $ 165,309 | $ 6,597,774 | $ 8,340,229 |

| (In 000s) | 2022 Level 1 | Level 2 | Net Asset Value | Total |
|---|---|---|---|---|
| Global equity | $ 575,436 | $ - | $ 1,781,135 | $ 2,356,571 |
| Marketable alternative | 6,861 | - | 2,245,382 | 2,252,243 |
| Real assets | 1,060 | - | 305,173 | 306,233 |
| Private equity | - | - | 1,821,437 | 1,821,437 |
| Fixed income | 607,469 | 161,912 | - | 769,381 |
| Cash | 115,090 | - | - | 115,090 |
| Total | $ 1,305,916 | $ 161,912 | $ 6,153,127 | $ 7,620,955 |

During the year ended June 30, 2023, six investments classified as NAV for $426 million were terminated and the remaining balance of this investment as of June 30, 2023, was $199 million. During the year ended June 30, 2022, three investments classified as NAV for $689 million were terminated and the remaining balance of this investment as of June 30, 2022, was immaterial. There were no material transfers during the year ended June 30, 2023, and no material purchases or issuances of Level 3 investments during the years ended June 30, 2023 and 2022.

Private equity and private real assets do not have a readily determinable market value. Fair values are based on information provided by the fund managers along with audited financial information using either the market approach or an income approach, each of which requires a significant degree of judgment. There is no active trading market for these investments, and they are for the most part illiquid.

ALSAC uses fund NAV as a practical expedient to estimate the fair value of ALSAC ownership interest for funds which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The investments in investment funds (in partnership format) by major category as of June 30, 2023 and 2022, were fully funded and the Net Asset Value—Other category was as follows:

| (In 000s) | 2023 | 2022 | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Global equity [a] | $ 2,451,539 | $ 1,781,135 | Daily, monthly, quarterly, greater than one year | 0–60 days |
| Marketable alternatives [b] | 1,964,322 | 2,245,382 | Monthly, quarterly, annually greater than one year | 30–180 days |
| Real assets [c] | 294,716 | 305,173 | Manager Initiated Distributions | N/A |
| Private equity [d] | 1,887,197 | 1,821,437 | Manager Initiated Distributions | N/A |
| Total | $ 6,597,774 | $ 6,153,127 | | |

For the Global equity and Marketable alternatives there is approximately $210 million across 12 funds undergoing full redemption from which ALSAC receives regular distributions, as stated in the funds' liquidity terms, or through liquidation by fund managers of underlying, illiquid securities. Liquidation of approximately $84 million, $39 million, and $9 million are expected to be completed within the next one, two, and three years, respectively. Illiquid balances expected to be distributed in the longer term remain from funds terminated in 2023 and prior years which total approximately $78 million. There were no unfunded commitments related to investments valued at NAV in either 2023 or 2022.

Real assets and Private equity categories are invested in partnerships and illiquid. ALSAC is obligated under these investment contracts to periodically advance funding up to contractual levels. Such commitments were approximately $1.0 billion and $1.1 billion at June 30, 2023 and 2022, respectively.

(a) Includes investments in global equity and long/short equity hedge funds. The long/short equity funds include short positions as well as long positions and use leverage. Managers in this allocation pursue diversified strategies covering multiple capitalizations, styles and geographic focus. Some funds may be subject to lock-up provisions.

(b) Includes hedge fund strategies such as hedged equity, multi-strategy, arbitrage, global macro, distressed securities, and open mandate strategies. Underlying investments are primarily liquid instruments and their derivatives in fixed income, asset backed securities, currencies, trade claims, commodities, and equities. The funds include short positions as well as long positions and use leverage. It also includes side pockets (a separate share class) which are not available for redemption until the investment is liquidated by the managers.

(c) Includes investments in a variety of real assets held in partnership funds. These assets include private real estate, real estate related debt and securities, oil and gas and other energy related investments, timber, commodities, precious metals, and mining companies. The funds in this category do not permit redemptions.

(d) Includes investments in venture capital, leverage buyouts, growth equity, and distressed investments. The funds in this category do not permit redemptions.

## 7. PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2023 and 2022, is as follows:

| **(In 000s)** | **2023** | **2022** |
|---|---|---|
| Land and improvements | $ 65,856 | $ 66,159 |
| Buildings and improvements | 1,649,865 | 1,620,736 |
| Furniture and equipment | 631,755 | 574,015 |
| Computer software | 270,070 | 185,941 |
| Leasehold improvements | 5,612 | 5,048 |
| Construction in progress | 343,708 | 204,176 |
| | 2,966,866 | 2,656,075 |
| Less accumulated depreciation and amortization | (1,489,021) | (1,364,747) |
| Total property and equipment | $ 1,477,845 | $ 1,291,328 |

Buildings and improvements, furniture and equipment, and computer software are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives of 10 to 40 years, 3 to 20 years, and 3 to 5 years, respectively. Leasehold improvements are recorded at cost and are depreciated on a straight-line basis over the term of the lease or the estimated useful lives, whichever is shorter.

Construction in progress at June 30, 2023, includes $114.6 million related to the construction of a patient and family housing facility and $79.7 million of costs related to the construction of outpatient facilities. The total estimated cost of the patient and family housing facility is $117 million and was substantially complete in calendar year 2023. The total estimated cost of the outpatient facilities is $1 billion and is expected to be substantially complete in calendar year 2026.

## 8. ENDOWMENT FUNDS

ALSAC's endowment consists of approximately 230 individual funds established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ALSAC maintained the following endowment net asset composition by type of fund as of June 30, 2023 and 2022:

| | 2023 | | |
|---|---|---|---|
| **(In 000s)** | **Without Donor Restriction** | **With Donor Restriction** | **Total** |
| Donor-restricted endowment funds | | | |
| Future needs of the hospital | $ - | $ 732,457 | $ 732,457 |
| Endowed chairs | - | 382,500 | 382,500 |
| Treatment and research | - | 38,189 | 38,189 |
| Board-designated endowment funds | 112,674 | - | 112,674 |
| Total | $ 112,674 | $ 1,153,146 | $ 1,265,820 |

| | 2022 | | |
|---|---|---|---|
| **(In 000s)** | **Without Donor Restriction** | **With Donor Restriction** | **Total** |
| Donor-restricted endowment funds | | | |
| Future needs of the hospital | $ - | $ 694,808 | $ 694,808 |
| Endowed chairs | - | 363,539 | 363,539 |
| Treatment and research | - | 37,754 | 37,754 |
| Board-designated endowment funds | 113,448 | - | 113,448 |
| Total | $ 113,448 | $ 1,096,101 | $ 1,209,549 |

Changes in endowment net assets for the years ended June 30, 2023 and 2022, are as follows:

| | 2023 | | |
|---|---|---|---|
| **(In 000s)** | **Without Donor Restriction** | **With Donor Restriction** | **Total** |
| Endowment net assets, beginning of year | $ 113,448 | $ 1,096,101 | $ 1,209,549 |
| Contributions and bequests | - | 2,023 | 2,023 |
| Interest and dividends | 336 | 8,045 | 8,381 |
| Net realized and unrealized gains | 6,226 | 55,660 | 61,886 |
| Appropriation of endowment net assets pursuant to spending policy | (7,336) | (8,683) | (16,019) |
| Endowment net assets, end of year | $ 112,674 | $ 1,153,146 | $ 1,265,820 |

| | 2022 | | |
|---|---|---|---|
| **(In 000s)** | **Without Donor Restriction** | **With Donor Restriction** | **Total** |
| Endowment net assets, beginning of year | $ 126,935 | $ 1,202,993 | $ 1,329,928 |
| Contributions and bequests | - | 9,150 | 9,150 |
| Interest and dividends | 194 | 8,062 | 8,256 |
| Net realized and unrealized gains | (5,872) | (62,144) | (68,016) |
| Appropriation of endowment net assets pursuant to spending policy | (7,809) | (61,960) | (69,769) |
| Endowment net assets, end of year | $ 113,448 | $ 1,096,101 | $ 1,209,549 |

## 9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2023 and 2022, are restricted for the following purposes:

| **(In 000s)** | **2023** | **2022** |
|---|---|---|
| Endowments: | | |
| Subject to spending policy and appropriation | | |
| Future needs of the hospital | $ 732,457 | $ 694,808 |
| Endowed chairs | 382,500 | 363,539 |
| Treatment and research | 38,189 | 37,754 |
| Total endowments | 1,153,146 | 1,096,101 |
| Subject to the passage of time | 113,228 | 103,599 |
| Net assets restricted to purpose | 26,496 | 39,807 |
| Total net assets with donor restrictions | $ 1,292,870 | $ 1,239,507 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2023 and 2022:

| **(In 000s)** | **2023** | **2022** |
|---|---|---|
| Spending from donor-restricted endowment funds under an endowment spending policy | $ 8,659 | $ 61,960 |
| Expiration of split interest agreements | 18,532 | 4,276 |
| Total | $ 27,191 | $ 66,236 |

## 10. NET ASSETS WITHOUT DONOR RESTRICTIONS

The composition of net assets without donor restrictions as of June 30, 2023 and 2022, is as follows:

| **(In 000s)** | **2023** | **2022** |
|---|---|---|
| Cash and cash equivalents | $ 409,366 | $ 386,384 |
| Receivables | 121,025 | 156,005 |
| Investments | 6,962,928 | 6,309,707 |
| Board-designated endowments | 112,674 | 113,448 |
| Assets limited as to use | 3,340 | 3,235 |
| Property and equipment—net | 1,477,845 | 1,291,328 |
| Deferred expenses and other assets | 241,757 | 95,215 |
| Total assets without donor restrictions | 9,328,935 | 8,355,322 |
| Less liabilities | (419,883) | (319,160) |
| Net assets without donor restrictions | $ 8,909,052 | $ 8,036,162 |

## 11. CONTRIBUTIONS AND OTHER SUPPORT

The composition of contributions of cash and other financial assets as of June 30, 2023 and 2022, is as follows:

| | **2023** | | |
|---|---|---|---|
| **(In 000s)** | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Direct marketing | $ 933,150 | $ - | $ 933,150 |
| Community development programs | 14,272 | - | 14,272 |
| Public support and memorials, other than direct mail | 406,759 | 66 | 406,825 |
| Radiothons | 67,484 | - | 67,484 |
| Federated fundraising agencies | 3,165 | - | 3,165 |
| Corporate and foundation gifts | 272,805 | 894 | 273,699 |
| Sporting events | 52,490 | - | 52,490 |
| Annuity contracts | - | 5,099 | 5,099 |
| Total | $ 1,750,125 | $ 6,059 | $ 1,756,184 |

| (In 000s) | 2022 Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Direct marketing | $ 895,943 | $ - | $ 895,943 |
| Community development programs | 13,749 | - | 13,749 |
| Public support and memorials, other than direct mail | 424,637 | 142 | 424,779 |
| Radiothons | 68,396 | - | 68,396 |
| Federated fundraising agencies | 3,134 | - | 3,134 |
| Corporate and foundation gifts | 336,558 | 51 | 336,609 |
| Sporting events | 49,740 | - | 49,740 |
| Annuity contracts | - | 6,080 | 6,080 |
| Total | $ 1,792,157 | $ 6,273 | $ 1,798,430 |

Contributions of cash and other financial assets include cash donations received from various fundraising campaigns, such as direct marketing, radiothons, corporate and foundation gifts, and cash donations received from fundraising events, such as the Thanks and Giving campaign, St. Jude Dream Home giveaways and various sporting events.

The composition of contributions of nonfinancial assets as of June 30, 2023 and 2022, is as follows:

| (In 000s) | 2023 Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Building materials and supplies | $ 5,537 | $ - | $ 5,537 |
| Services | 4,027 | - | 4,027 |
| Intangible assets | 950 | - | 950 |
| Vehicles | 476 | - | 476 |
| Household items | 1,302 | - | 1,302 |
| Equipment | 16 | - | 16 |
| Total contributions of nonfinancial assets | $ 12,308 | $ - | $ 12,308 |

| (In 000s) | 2022 Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Building materials and supplies | $ 5,308 | $ - | $ 5,308 |
| Services | 4,128 | - | 4,128 |
| Intangible assets | 2,838 | - | 2,838 |
| Vehicles | 517 | - | 517 |
| Household items | 692 | - | 692 |
| Equipment | 11 | - | 11 |
| Total contributions of nonfinancial assets | $ 13,494 | $ - | $ 13,494 |

The Organization recognizes contributed nonfinancial assets within revenue, including building materials and supplies, services, intangible assets, vehicles, household items, and equipment. Unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

Contributed building materials and supplies were utilized in the construction of the St. Jude Dream Homes. In valuing building materials and supplies, the Organization estimated the fair value based on estimates of values that would be received for similar products in the United States.

Contributed services recognized comprise professional services from contractors constructing the St. Jude Dream Homes. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services.

It is the Organization’s policy to sell all contributed intangible assets, vehicles, household items, and equipment immediately upon receipt and valued according to the cash proceeds received upon the sale.

## 12. EMPLOYEE RETIREMENT BENEFIT PLANS

The Hospital sponsors a defined contribution retirement annuity plan, generally covering all employees who have completed one year of service. The plan requires that the Hospital make annual contributions based on participants’ base compensation and employment classification. The plan allows individuals to begin making contributions to the plan as a pretax deferral as soon as administratively feasible after the hire date. Hospital contributions are 50% vested after two years of service and 100% vested after three years of service. Employee contributions are 100% vested immediately. Total cash contributions by the Hospital to the plan were approximately $38.5 million and $32.4 million for the years ended June 30, 2023 and 2022, respectively.

ALSAC sponsors a defined contribution retirement plan generally covering all employees who have completed one year of service and 1,000 hours during a 12-month period. The plan allows ALSAC to make annual contributions based on participants’ salaries. Employees can choose to invest their contributions into the options provided through the plan. Employees become 30% vested in the employer contributions after two years of service, 60% after three years of service, and 100% after four years of service. Employee contributions are 100% vested immediately. ALSAC contributed approximately $11.4 million and $10.7 million to the plan during the years ended June 30, 2023 and 2022, respectively.

## 13. FINANCIAL INSTRUMENTS

The carrying amounts of all applicable asset and liability financial instruments reported in the combined statements of financial position approximate their estimated fair values due to their short-term nature, in all significant respects, as of June 30, 2023 and 2022.

## 14. SELF-INSURANCE PROGRAMS

The Hospital is self-insured for the following:

- Comprehensive general and professional liability coverage up to $2 million per claim and $6 million in the aggregate, with $100 million of excess claims-made coverage above the self-insured retentions. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported was approximately $2.8 million and $2.7 million as of June 30, 2023 and 2022, respectively. The reserve is included in the combined statements of financial position as other liabilities.
- Workers' compensation liabilities up to a specific retention of $0.5 million, with excess coverage at statutory limits. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported was approximately $1.2 million as of June 30, 2023 and 2022. The reserve is included in the combined statements of financial position as other liabilities.
- Employee health coverage (medical and prescription drug) up to $0.45 million per covered individual per year with no lifetime limit. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported, was approximately $5.9 million and $5.6 million as of June 30, 2023 and 2022, respectively. The reserve is included in the combined statements of financial position as other liabilities.

The Hospital also has substantial excess liability coverage available under the provisions of certain claims-made policies. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the Hospital's incident reporting system, that any such claims would not have a material effect on the combined statements of activities or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires. Excess policies for professional liability coverage, workers' compensation coverage, and employee health coverage expire on May 1, 2024, January 1, 2025, and December 31, 2024, respectively.

## 15. LEASES

The Organization is party to operating lease arrangements primarily for leased real estate for office space and office equipment. Material leases range in term from 1 to 10 years, with various renewal options exercisable solely at the Organization's discretion. The Organization includes the options to renew in the measurement of ROU assets and liabilities when they are considered reasonably certain of exercise. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease.

Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the Organization recognizes lease expense for these leases on a straight-line basis over the lease term.

The Organization separates lease components from non-lease components for any of its ROU assets.

Operating lease costs directly attributable to operations, primarily for real estate and to a lesser extent certain equipment, are included in operating costs in the accompanying statements of activities. No significant new leases existed for ALSAC.

The Organization leases certain office space and equipment under noncancelable operating leases. Future minimum lease payments required under such leases having an initial or remaining term of more than one year as of June 30, 2023, consist of the following:

**Lease Expense**

| **(In 000s)** | **Year Ending June 30, 2023** |
|---|---|
| Operating lease cost | $ 14,750 |
| Short-term lease cost | 3,124 |
| Sublease income | (495) |
| Total | $ 17,379 |
| Other information: | |
| Operating cash flows from operating leases | $ 13,283 |
| ROU assets obtained in exchange for new operating lease liabilities | $ 7,314 |
| Weighted-average remaining lease term in years for operating leases | 3.35 |
| Weighted-average discount rate for operating leases | 3.09 % |

**Operating**

| | |
|---|---|
| Maturity Analysis for Year Ending: | |
| 2024 | $ 11,419 |
| 2025 | 10,245 |
| 2026 | 7,382 |
| 2027 | 4,777 |
| Thereafter | 791 |
| Total undiscounted cash flows | 34,614 |
| Less: present value discount | (1,546) |
| Total lease liabilities | $ 33,068 |

**16. COMMITMENTS AND CONTINGENCIES**

The Organization is involved in various claims and matters of litigation that arise in the normal course of business. Although the outcome of these proceedings and claims cannot be determined with certainty, the Organization's management is of the opinion that the outcome will not have a material adverse effect on the combined financial statements.

**Health Care Industry**—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters, such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigators and/or allegations concerning possible violations of fraud and abuse statutes and/or regulation by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

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