

Lucile Packard Foundation for Children's Health

**Financial Statements
August 31, 2023 and 2022**

Lucile Packard Foundation for Children’s Health
Index
August 31, 2023 and 2022

	Page(s)
Report of Independent Auditors	1–2
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows	5
Notes to Financial Statements	6–19



Report of Independent Auditors

To the Board of Directors of Lucile Packard Foundation for Children's Health

Opinion

We have audited the accompanying financial statements of Lucile Packard Foundation for Children's Health (the "Foundation"), which comprise the statements of financial position as of August 31, 2023 and 2022, and the related statements of activities and of cash flows for the years then ended, including the related notes (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 Foundation as of August 31, 2023 and 2022, and the changes in its 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 Financial Statements section of our report. We are required to be independent of the Foundation 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Foundation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.



Auditors' 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 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 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 Foundation'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 Foundation'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
November 15, 2023

Lucile Packard Foundation for Children's Health
Statements of Financial Position
August 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 45,995,559	\$ 34,704,185
Contributions receivable designated for LPCH and SOM, net	173,580,238	245,620,160
Investments	158,498,428	160,539,296
Other assets	6,782,075	5,133,905
Right of use asset - real estate	11,564,635	12,954,894
Total assets	<u>\$ 396,420,935</u>	<u>\$ 458,952,440</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 4,986,683	\$ 4,480,689
Due to LPCH and SOM	27,730,323	14,098,861
Deferred revenue	4,378,628	9,409,883
Grants payable	2,371,697	1,925,615
Amounts held for others	7,348,942	7,898,670
Operating lease liability - real estate	12,200,935	13,467,332
Total liabilities	<u>59,017,208</u>	<u>51,281,050</u>
Net assets		
Net assets without donor restrictions	139,137,212	135,053,368
Net assets with donor restrictions	198,266,515	272,618,022
Total net assets	<u>337,403,727</u>	<u>407,671,390</u>
Total liabilities and net assets	<u>\$ 396,420,935</u>	<u>\$ 458,952,440</u>

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

Lucile Packard Foundation for Children's Health
Statements of Activities
Years Ended August 31, 2023 and 2022

	2023	2022
Changes in net assets without donor restrictions		
Revenue and other support		
Investment income and gains (losses), net	\$ 4,561,936	\$ (12,740,064)
Other income	54,564	268,208
Net assets released from restrictions	<u>167,742,705</u>	<u>109,840,449</u>
Total revenue and other support without donor restrictions	172,359,205	97,368,593
Reimbursement of development and related finance and administration costs from LPCH and SOM	34,679,032	28,359,562
Reimbursement of facility and related costs from LPCH and SOM	<u>4,688,376</u>	<u>-</u>
Total reimbursements from LPCH and SOM	39,367,408	28,359,562
Total revenue and other support and transfers from LPCH and SOM without donor restrictions	<u>211,726,613</u>	<u>125,728,155</u>
Expenses		
CYSHCN	4,844,867	3,948,378
Development	28,758,786	24,234,477
Finance and administration	<u>6,296,411</u>	<u>4,428,190</u>
Total expenses	39,900,064	32,611,045
Contributions transferred to LPCH and SOM	167,742,705	109,789,114
Grants paid for the Children's Health Initiative to LPCH and SOM	<u>-</u>	<u>51,335</u>
Total expenses and transfers to LPCH and SOM	207,642,769	142,451,494
Total increase (decrease) in net assets without donor restrictions	<u>4,083,844</u>	<u>(16,723,339)</u>
Changes in net assets with donor restrictions		
Contribution income	92,267,610	201,880,561
Investment income and gains (losses), net	669,236	(148,426)
Change in value of investments held in trust	454,352	(1,176,649)
Net assets released from restrictions	<u>(167,742,705)</u>	<u>(109,840,449)</u>
(Decrease)/Increase in net assets with donor restrictions	<u>(74,351,507)</u>	<u>90,715,037</u>
Total (decrease)/increase in net assets	(70,267,663)	73,991,698
Total net assets, beginning	<u>407,671,390</u>	<u>333,679,692</u>
Total net assets, ending	<u>\$ 337,403,727</u>	<u>\$ 407,671,390</u>

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

Lucile Packard Foundation for Children's Health
Statements of Cash Flows
Years Ended August 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
(Decrease) Increase in net assets	\$ (70,267,663)	\$ 73,991,698
Adjustments to reconcile increase in net assets to net cash provided (used) in operating activities		
(Gains) Losses on investments	(4,449,313)	13,526,210
Depreciation expense	499,547	232,747
Provision for doubtful accounts	2,684,927	(324,629)
Discount on pledges receivable	(1,065,581)	2,004,206
Discount on grants payable and write-offs	36,366	(29,888)
Net change in value of investments held in trust	(451,389)	(1,594)
Net amortization of right of use asset and lease liability	123,862	166,698
Change in assets and liabilities		
Contributions receivable designated for LPCH and SOM	70,420,576	(94,612,871)
Other assets	(7,905)	(132,322)
Accounts payable, accrued expenses, and deferred revenue	(4,112,886)	(65,466)
Grants payable	409,716	(184,820)
Amounts due to LPCH and SOM	<u>13,631,462</u>	<u>11,653,782</u>
Net cash provided by operating activities	<u>7,451,719</u>	<u>6,223,751</u>
Cash flows from investing activities		
Purchases and capital calls of investments	(6,828,022)	(30,099,684)
Sales and distributions of investments	14,022,376	31,421,623
Capital expenditures	<u>(2,552,186)</u>	<u>(2,503,140)</u>
Net cash provided by (used in) investing activities	<u>4,642,168</u>	<u>(1,181,201)</u>
Cash flows from financing activities		
Contributions to charitable remainder trusts	-	2,725,796
Payments made under split interest agreements	<u>(802,513)</u>	<u>(819,297)</u>
Net cash (used in) provided by financing activities	<u>(802,513)</u>	<u>1,906,499</u>
Net increase in cash and cash equivalents	11,291,374	6,949,049
Cash and cash equivalents at		
Beginning of the year	<u>34,704,185</u>	<u>27,755,136</u>
End of the year	<u>\$ 45,995,559</u>	<u>\$ 34,704,185</u>
Noncash activities		
Capital expenditures included in accounts payable and accrued expenses	\$ 37,880	\$ 450,255
Donated securities	6,225,543	7,025,052

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

Lucile Packard Foundation for Children's Health

Notes to Financial Statements

August 31, 2023 and 2022

1. Organization

The Lucile Packard Foundation for Children's Health (the Foundation) is a public charity, founded in 1996, whose mission is to unlock philanthropy to transform health for all kids and families in the local community and around the world. The Foundation pursues its mission through two distinct yet complementary activities: (1) fundraising for the Lucile Salter Packard Children's Hospital Stanford (LPCH) and the pediatric and obstetric programs at the Stanford University School of Medicine (SOM) (development) and (2) programmatic work, including grantmaking, to improve the system of care for children and youth with special healthcare needs (CYSHCN).

The Foundation is incorporated as a non-profit organization under the laws of the State of California. LPCH is the sole corporate member of the Foundation. The Board of Trustees of the Leland Stanford Junior University is the sole corporate member of LPCH.

2. Summary of Significant Accounting Policies

Financial Statements

The financial statements of the Foundation are prepared on the accrual basis of accounting and in conformity with U.S. generally accepted accounting principles (GAAP) applicable to non-profit organizations.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Significant estimates include the reserve for uncollectible pledges, discount on pledges receivable, and valuation of alternative investments. Actual results could differ from those estimates.

Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Foundation and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* are net assets that are not subject to donor imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors or otherwise limited by contractual arrangements with outside parties.
- *Net assets with donor restrictions* are net assets that are subject to donor imposed restrictions on the specific use of the assets or which expire with the passage of time. When a donor stipulated purpose restriction is accomplished or a time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Net assets with donor restrictions relate to funds raised for LPCH and SOM. The Foundation has no net assets with donor imposed restrictions that require the assets to be invested in perpetuity and which are subject to a spending policy and appropriation.

Lucile Packard Foundation for Children's Health

Notes to Financial Statements

August 31, 2023 and 2022

Contributions are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor imposed restrictions, in which case contributions are reported as increases in net assets with donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income, gains, and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts not held for long-term investment and include bank deposits, highly liquid money market accounts, and other short-term investments with maturities of three months or less at time of purchase. The carrying amount approximates fair value due to the short-term nature of those instruments. As of August 31, 2023 and 2022, cash and cash equivalents were primarily held at a bank and consisted mainly of donor gifts not yet transferred to LPCH and SOM and cash held for operating expenses. While these deposits exceed federally insured limits, the Foundation does not believe the uninsured amounts are at significant risk. Gifts are transferred to LPCH and SOM and operating cash is expected to be spent or reinvested in the endowment within the first half of the next fiscal year.

Contributions Receivable Designated for LPCH and SOM

Contributions receivable designated for LPCH and SOM represent unconditional promises to give to the Foundation for the benefit of LPCH and SOM. Conditional promises to give are included in contributions receivable designated for LPCH and SOM only in the period in which the condition is substantially met. Pledges receivable are discounted at an interest rate that reflects the risks inherent in these cash flows. The rate is determined at the date of the unconditional promise to give.

Investments

The Foundation holds investments in money market funds, domestic equity funds, fixed income funds, real asset funds, debt securities issued by the U.S. government, Treasury, and agencies, and alternative investments. Marketable investments are carried at fair value. Alternative investments are recorded at fair value or net asset value (NAV) under a practical expedient for measuring fair value.

External investment management fees have been included as a reduction of investment income in the statements of activities.

Investments Held in Trust

Investments held in trust represent charitable remainder trusts in which the Foundation is the trustee. The trust specifies a beneficiary or beneficiaries who sustain a lifetime interest in a portion of the principal and trust income. LPCH or SOM is the beneficiary of the balance of the trust assets upon termination of the trust. Investments held in trust, which totaled \$11,447,106 and \$12,792,874, respectively, as of August 31, 2023 and 2022, are carried at fair value in investments in the statements of financial position and are held with one commercial institution. The related liabilities as of August 31, 2023 and 2022, are included in amounts held for others in the statements of financial position and are discounted at 5.0% and 3.3%, respectively.

Leases

The Foundation determines if an arrangement is a lease at the inception of the contract by evaluating whether the arrangement conveys the right to use an identified asset and whether the Foundation obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The Foundation has chosen to elect the short-term lease measurement and recognition exemption. Leases with an initial term of twelve months or less are not recorded on the

Lucile Packard Foundation for Children's Health

Notes to Financial Statements

August 31, 2023 and 2022

statements of financial position and are expensed on a straight-line basis. For leases with an initial term in excess of twelve months, right of use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the committed lease term at the lease commencement date. The Foundation does not include renewal options in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement.

Deferred Revenue

Reimbursement of development expenses from LPCH and SOM represents amounts paid by LPCH and SOM to the Foundation in consideration for the Foundation's fundraising efforts on behalf of LPCH and SOM. These amounts are based on actual development costs incurred, including its share of finance and administration. Amounts received in excess of costs incurred are recognized as deferred revenue.

Due to LPCH and SOM and Contribution Income

Pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-20, *Not-for-Profit Entities*, the Foundation reports contributions for LPCH and SOM as an increase to net assets with donor restrictions. Donor restrictions on contributions generally include restrictions as to beneficiary and purpose. The restrictions on beneficiary are considered satisfied and the funds are released from restrictions when the funds are ready to be transferred or are transferred to LPCH and SOM. Contributions that have been released from restriction are recorded as an increase to amounts due to LPCH and SOM until transferred.

Functional Expenses

The costs of the Foundation's activities have been summarized on a functional basis in the statements of activities. Expenses related to two or more functions are generally allocated based on headcount except for certain expenses which are allocated based on estimated levels of involvement of staff across each function.

Liquidity and Availability

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Expenditures related to development activities are funded by fees received by LPCH and SOM each month. Expenditures related to CYSHCN are funded by amounts appropriated from the board designated endowment (included in investments in the statement of financial position), subject to the Foundation's spend policy, as further discussed in Note 10. For fiscal years 2023 and 2022, the board appropriated and made available for use within one year of the balance sheet dates \$6.2 million and \$4.7 million of financial assets to fund CYSHCN. The Foundation does not maintain a liquidity reserve or lines of credit. As the need for operating cash arises to fund expenses within its board approved budget, the Foundation prepares a cash forecast and redeems funds from its endowment based on the projected need. Although the Foundation does not intend to spend from its board designated endowment other than amounts appropriated for general expenditure as part of its annual budget, amounts from its board designated endowment could be made available if necessary. The board designated endowment does contain investments with lock up provisions and limited liquidity that would reduce the total amounts that could be made available. As of August 31, 2023 and 2022, 46% and 42% of the board designated endowment is redeemable within one month or less.

Income Taxes

The Foundation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California and, generally, is not subject to state or federal taxes on income. However, the Foundation remains subject to state or

Lucile Packard Foundation for Children's Health

Notes to Financial Statements

August 31, 2023 and 2022

federal taxes on any net income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded because net income from unrelated trade or business, if any, in the opinion of management, is not material to the financial statements taken as a whole. Gifts to the Foundation are deductible for income tax purposes under Section 170(b)(1)(A) of the Internal Revenue Code.

The Foundation follows the provision of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax provision taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax positions exist requiring accrual or disclosure as of August 31, 2023 or 2022.

Recently Adopted Accounting Standards

Cloud Computing Arrangements

ASU 2018-15, FASB Issue Date: August 2018, Effective Date: Fiscal Year 2022

The Accounting Standards Update (ASU) requires capitalization of implementation costs incurred in a cloud computing arrangement in a manner that is consistent with the capitalization of implementation costs incurred to develop or obtain internal-use software. The standard was adopted for the Foundation's year ended August 31, 2022. The adoption did not have a material impact on the financial statements.

Contributed Nonfinancial Assets

ASU 2020-07, FASB Issue Date: September 2020, Effective Date: Fiscal Year 2022

This ASU provides enhanced presentation and disclosure requirements for contributed nonfinancial assets for not-for-profit entities. Contributed nonfinancial assets should be presented in a separate line item in the Statement of Activities apart from cash contributions. Additional disclosures are required about types of contributions, policy (if any) on monetizing rather than utilizing, donor-imposed restrictions and fair value measurement of contributed nonfinancial assets. The standard was adopted for the Foundation's year ended August 31, 2022. The adoption did not have a material impact on the financial statements.

Discount Rate Guidance for Lessees That are Not Public Business Entities (Amendments to ASC 842)

ASU 2021-09, FASB Issue Date: November 2021, Effective Date: Fiscal Year 2023

This ASU allows a lessee that is a not-for-profit entity or a non-public business entity the option to elect a risk-free discount rate by class of underlying asset rather than for all leases at the entity-wide level. The Foundation opted to not implement this accounting policy election.

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

3. Contributions Receivable Designated for LPCH and SOM

Contributions receivable designated for LPCH and SOM as of August 31, 2023 and 2022, are due as follows:

	2023	2022
Less than one year	\$ 61,177,707	\$ 138,011,288
One to five years	98,459,208	94,257,246
Greater than five years	<u>25,013,500</u>	<u>25,019,500</u>
	184,650,415	257,288,034
Less:		
Reserve for uncollectible pledges	(1,619,459)	(1,151,576)
Discount at 1.56% to 5.32%	<u>(9,450,718)</u>	<u>(10,516,298)</u>
Total pledges receivable designated for others	<u>\$ 173,580,238</u>	<u>\$ 245,620,160</u>

	2023	2022
Contributions receivable at August 31 are designated to the following beneficiaries:		
LPCH	\$ 107,814,684	\$ 172,626,246
SOM	<u>65,765,554</u>	<u>72,993,914</u>
	<u>\$ 173,580,238</u>	<u>\$ 245,620,160</u>

Conditional pledges that depend on the occurrence of a specified future or uncertain event are recognized when the conditions are substantially met. Conditional pledge balances as of August 31, 2023 and 2022 were \$100,000 and \$150,000, respectively.

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

4. Investments

The Foundation holds the following investments at August 31, 2023 and 2022:

	Fair Value	
	2023	2022
Money market funds	\$ 4,158,052	\$ 5,246,337
Fixed-income funds	10,419,215	12,804,986
Debt securities issued by U.S. government, Treasury, and agencies	5,354,561	5,372,622
Domestic equity funds	13,665,431	13,574,171
Alternative investments		
Fixed income funds	6,622,323	6,265,817
Hedge funds	23,405,770	23,164,340
Global equity funds	44,426,052	38,861,709
Private capital funds	37,629,048	41,768,404
Real asset funds	12,817,976	13,480,910
Total investments	<u>\$ 158,498,428</u>	<u>\$ 160,539,296</u>

The table below summarizes the distribution of the investment balance:

	2023	2022
Foundation assets held as board-designated endowment	\$ 135,605,574	\$ 134,980,049
Term investments held for LPCH and SOM	10,545,483	12,219,418
Funds designated for others	900,265	546,955
Investments held in trust	11,447,106	12,792,874
	<u>\$ 158,498,428</u>	<u>\$ 160,539,296</u>

The Foundation’s investment holdings included the following investments constituting 5% or greater of the total investment balance at August 31, 2023 and 2022:

	2023	2022
Stepstone VC Global Partners	7.1 %	7.9 %
Commonfund Capital funds	5.3 %	6.4 %
Weatherlow Offshore	5.4 %	6.0 %
Pacific Investment Management Company funds	4.7 %	5.6 %
Legacy Venture funds	4.6 %	5.5 %
Wellington Management Company	5.7 %	4.7 %

Fair Value of Financial Instruments

The fair values of the financial instruments as of August 31, 2023 and 2022, represent management’s best estimate of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at

Lucile Packard Foundation for Children's Health

Notes to Financial Statements

August 31, 2023 and 2022

that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Marketable Investment Securities

Marketable securities, including money market funds, fixed income funds, and domestic equity funds are measured using quoted market prices at the reporting date multiplied by the quantity held.

Debt Securities

Debt securities issued by the U.S. government, Treasury, and agencies are measured using significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date.

Alternative Investment Securities

- (1) Fixed income funds include alternative investments in investment grade securities and corporate and structured credit, including collateralized loan obligations (CLOs), bank loans, traditional asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and short duration corporate bonds. The fair values of fixed income funds have been estimated using NAV. Fixed income funds include investments that are redeemable semi-monthly with five days' notice.
- (2) Hedge funds include alternative investments in marketable equity, convertible, fixed income and debt securities, merger arbitrage, derivatives, credit, options, and certain illiquid securities. The fair values of hedge funds have been estimated using NAV. Hedge funds include both redeemable and nonredeemable investments. Approximately \$22 million and \$20 million, respectively, of total hedge funds at August 31, 2023 and 2022, are redeemable in periods from one month to one year, with 45 to 90 days' notice. Nonredeemable assets in this category total approximately \$2 million and \$4 million at August 31, 2023 and 2022, respectively.
- (3) Global equity funds include alternative investments primarily in marketable equity and equity related securities. The fair values of investments in this category have been estimated using NAV or have alternative pricing as sources and are classified as Level2. Global equity funds include both redeemable and nonredeemable investments. As of August 31, 2023 and 2022, redeemable investments in this category totaled \$37 million and \$32 million, respectively, and are redeemable in periods from one day to six months, with 7 to 90 days' notice. Nonredeemable assets in this category total approximately \$8 million and \$7 million as of August 31, 2023 and 2022, respectively.
- (4) Private capital funds include alternative investments in private equity, leveraged buyouts, and venture capital in a variety of industries. The fair values of investments in this category have been estimated using NAV. These investments are nonredeemable but receive distributions on liquidation of the investee's underlying assets. The Foundation expects underlying assets of approximately 40% of these investments to be liquidated and distributed within the next 5 years and approximately 60% to be liquidated and distributed in 6 to 15 years.

Lucile Packard Foundation for Children's Health

Notes to Financial Statements

August 31, 2023 and 2022

Unfunded commitments for private capital fund alternative investments totaled approximately \$12 million and \$14 million, respectively, as of August 31, 2023 and 2022.

- (5) Real asset funds include alternative investments in equity, equity related, and debt securities in commercial and residential real estate and natural resources. The fair values of investments in this category have been estimated using NAV. As of August 31, 2023 and 2022, redeemable investments in this category totaled approximately \$8 million, and are redeemable monthly with 8 to 30 days' notice. Nonredeemable assets in this category total approximately \$5 million and \$6 million as of August 31, 2023 and 2022. These investments receive distributions on liquidation of the investee's underlying assets. The Foundation expects underlying assets of approximately 79% of the nonredeemable investments in this category to be liquidated and distributed within the next 5 years and approximately 21% to be liquidated and distributed in 6 to 15 years.

Unfunded commitments for nonredeemable real asset fund alternative investments totaled approximately \$2 million as of August 31, 2023 and 2022, respectively.

Fair Value Hierarchy

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Foundation discloses and recognizes fair value of its investments in a hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The guidance provides a consistent definition of fair value that focuses on an exit price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 Inputs are inputs 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 inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

The following table presents assets that are measured at fair value on a recurring basis at August 31, 2023:

	Investments Measured at NAV	Fair Value Measurements at Reporting Date Using		Total
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Assets				
Money market funds	\$ -	\$ 4,158,052	\$ -	\$ 4,158,052
Fixed-income funds	-	10,419,215	-	10,419,215
Debt securities issued by the U.S. government, Treasury, and agencies	-	-	5,354,561	5,354,561
Domestic equity funds	-	13,665,431	-	13,665,431
Alternative investments				
Fixed income funds	6,622,323	-	-	6,622,323
Hedge funds	23,405,770	-	-	23,405,770
Global equity funds	39,392,054	-	5,033,998	44,426,052
Private capital funds	37,629,048	-	-	37,629,048
Real asset funds	12,817,976	-	-	12,817,976
	<u>\$ 119,867,171</u>	<u>\$ 28,242,698</u>	<u>\$ 10,388,559</u>	<u>\$ 158,498,428</u>

The following table presents assets that are measured at fair value on a recurring basis at August 31, 2022:

	Investments Measured at NAV	Fair Value Measurements at Reporting Date Using		Total
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Assets				
Money market funds	\$ -	\$ 5,246,337	\$ -	\$ 5,246,337
Fixed-income funds	-	12,804,986	-	12,804,986
Debt securities issued by the U.S. government, Treasury, and agencies	-	-	5,372,622	5,372,622
Domestic equity funds	-	13,574,171	-	13,574,171
Alternative investments				
Fixed income funds	6,265,817	-	-	6,265,817
Hedge funds	23,164,340	-	-	23,164,340
Global equity funds	34,750,714	-	4,110,995	38,861,709
Private capital funds	41,768,404	-	-	41,768,404
Real asset funds	13,480,910	-	-	13,480,910
	<u>\$ 119,430,185</u>	<u>\$ 31,625,494</u>	<u>\$ 9,483,617</u>	<u>\$ 160,539,296</u>

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

5. Grants Payable

Grants payable are payables related to CYSHCN that are due as of August 31, 2023 and 2022, as follows:

	2023	2022
Less than one year	\$ 1,496,046	\$ 1,375,392
One to five years	933,193	571,399
	<u>2,429,239</u>	<u>1,946,791</u>
Less: Discount at 1.80% to 4.75%	(57,542)	(21,176)
	<u>\$ 2,371,697</u>	<u>\$ 1,925,615</u>

6. Amounts Held for Others

Amounts held for others include primarily amounts due to beneficiaries, as specified by the underlying trust, who sustain a lifetime interest in a portion of the trust income and principal, as follows:

	2023	2022
Investments held in trust due to beneficiaries	\$ 6,876,267	\$ 7,456,421
Other	472,675	442,249
	<u>\$ 7,348,942</u>	<u>\$ 7,898,670</u>

7. Related Party Transactions

As of August 31, 2023, \$1,660,710 and \$378,153 of pledges receivable designated for others were due from members of the board of directors of the Foundation and LPCH, respectively.

As of August 31, 2022, \$52,811,639 and \$50,854,813 of pledges receivable designated for others were due from members of the board of directors of the Foundation and LPCH, respectively.

As of August 31, 2023 and 2022, the Foundation had grants payable to LPCH and SOM totaling \$223,016 and \$230,151 respectively, related to CYSHCN.

For the year ended August 31, 2023, contributions received by LPFCH and transferred to LPCH and SOM were \$111,995,207 and \$55,747,498, respectively.

For the year ended August 31, 2022, contributions received by LPFCH and transferred to LPCH and SOM were \$49,309,101 and \$60,480,013, respectively.

LPFCH received \$34 million and \$28 million from SOM and LPCH, shared equally, for reimbursement of development and associated finance and administrative costs as of August 31, 2023 and 2022, respectively.

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

8. Operating Leases

The Foundation’s lease portfolio consists of an operating lease for its office space. The Foundation’s current operating lease has a remaining term of eight years and includes an option to renew or extend the lease term for two consecutive ten year terms. The Foundation did not include the renewal options in its determination of its lease term.

The components of operating lease costs for the years ended August 31, 2023 and 2022 were:

	2023	2022
Operating lease cost	\$ 1,548,200	\$ 1,549,553
Variable cost	338,315	342,212
Short-term lease cost	<u>36,547</u>	<u>29,178</u>
Total lease expense	<u>\$ 1,923,062</u>	<u>\$ 1,920,943</u>

Supplemental cash flow information related to leases for the years ended August 31, 2023 and 2022 were as follows:

	2023	2022
Operating cash outflows from operating leases	\$ 1,424,338	\$ 1,382,854

Lease terms and discount rates as of August 31 are as follows:

	2023	2022
Remaining lease term	7.75 years	8.75 years
Discount rate	1.60 %	1.60 %

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

The following table includes the future maturities of lease payments for operating leases for periods subsequent to August 31, 2023:

	Operating Lease
Year ended August 31	
2024	\$ 1,514,841
2025	1,560,286
2026	1,607,094
2027	1,655,307
2028	1,704,967
Thereafter	<u>4,951,810</u>
Total lease payments	12,994,305
Less: Imputed interest	<u>(793,370)</u>
Total lease liabilities	12,200,935
Less: Current lease liabilities	<u>(1,331,313)</u>
Total long-term liabilities	<u>\$ 10,869,622</u>

9. Employee Benefit Plan

The Foundation participates in a defined contribution plan (the Plan) covering substantially all Foundation employees. The Plan provides for discretionary contributions to be made by both participants and the Foundation. Participants are fully vested in the Foundation’s contributions after five years. The Foundation’s contributions for the years ended August 31, 2023 and 2022, were \$1,701,619 and \$1,410,849, respectively.

10. Board Designated Endowment

The Foundation’s endowment consists of one fund, which is board designated. As required by GAAP, 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.

The Foundation’s board has adopted investment and spending policies that attempt to provide a predictable stream of funding to CYSHCN activities which are supported by the Foundation’s board designated endowment while seeking to maintain the purchasing power of endowment assets. Under these policies, board designated endowment assets are invested in a manner that is intended to provide an inflation adjusted total return, net of investment management fees, over time at least equal to the contemplated spending rate of 5% per year. Actual returns in any given year may vary from this goal. To satisfy its long term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long term return objectives within prudent risk constraints.

The Foundation 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 budget may be spent in future years subject to certain limits. The board of directors may also

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

appropriate an amount outside this target range. Accordingly, depending on anticipated activity and timing of grant opportunities, actual spending may fall outside of the range. In establishing this policy, the Foundation considered the long term expected return on its endowment. Over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate of expected inflation. This is consistent with the Foundation’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.

Changes in endowment net assets without donor restrictions for the years ended August 31, 2023 and 2022, are as follows:

	2023	2022
Board designated endowment at beginning of year	\$ 134,980,049	\$ 153,162,078
Investment income gains and losses, net	4,836,581	(12,435,534)
Endowment assets appropriated for expenditure	<u>(4,211,056)</u>	<u>(5,746,495)</u>
Board designated endowment at end of year	<u>\$ 135,605,574</u>	<u>\$ 134,980,049</u>

11. Net Assets With Donor Restrictions

The composition of net assets with donor restrictions as of August 31, 2023 and 2022 is as follows:

	2023	2022
Restricted to LPCH	\$ 115,694,764	\$ 185,210,653
Restricted to SOM	78,830,777	84,334,529
Restricted to LPCH or SOM	<u>3,740,974</u>	<u>3,072,840</u>
Total	<u>\$ 198,266,515</u>	<u>\$ 272,618,022</u>

Lucile Packard Foundation for Children’s Health
Notes to Financial Statements
August 31, 2023 and 2022

12. Classification of Expenses by Natural and Functional Classification

The following tables represent expenses by natural and functional classification for the years ended August 31, 2023 and 2022:

	2023			
	Program Services		Finance and Administration	
	CYSHCN	Development	Administration	Total
Advertising and marketing	\$ 22,624	\$ 228,541	\$ 11,964	\$ 263,129
Grants and strategic contracts	2,993,486	-	-	2,993,486
Outside services	162,732	4,054,063	2,358,052	6,574,847
Personnel	1,301,179	20,751,256	3,184,227	25,236,662
Rent and depreciation	107,851	2,022,419	276,542	2,406,812
Supplies	24,586	1,357,651	251,531	1,633,768
Taxes and business insurance	210,797	18,035	175,758	404,590
Travel and entertainment	21,612	326,821	38,337	386,770
	\$ 4,844,867	\$ 28,758,786	\$ 6,296,411	\$ 39,900,064

	2022			
	Program Services		Finance and Administration	
	CYSHCN	Development	Administration	Total
Advertising and marketing	\$ 18,116	\$ 245,443	\$ 12,531	\$ 276,090
Grants and strategic contracts	2,408,845	-	-	2,408,845
Outside services	217,803	3,355,634	1,709,263	5,282,700
Personnel	1,091,107	17,698,891	2,205,022	20,995,020
Rent and depreciation	100,949	1,754,410	284,210	2,139,569
Supplies	18,395	994,833	174,436	1,187,664
Taxes and business insurance	90,265	40,116	37,396	167,777
Travel and entertainment	2,898	145,150	5,332	153,380
	\$ 3,948,378	\$ 24,234,477	\$ 4,428,190	\$ 32,611,045

13. Commitments and Contingencies

In the normal course of business, the Foundation receives various threats of litigation. In the opinion of management, the outcome of such litigation will not materially affect operations or the financial position of the Foundation.

The Foundation’s development activities are funded by fees received from LPCH and SOM. The Foundation partners closely with LPCH and SOM to understand risks that may impact the ability of LPCH and/or SOM to cover expected development costs. In addition, the Foundation closely monitors its CYSHCN work, which is funded by a payout from the Foundation’s board designated endowment, to ensure that current financial commitments can be covered in the event of significant fluctuations in investment performance of the board designated endowment.

14. Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through November 15, 2023, the date at which the financial statements were available to be issued.