

**Children's Hospital of Pittsburgh
Foundation d/b/a UPMC Children's
Hospital Foundation**

Financial Statements

June 30, 2024 and 2023

Children’s Hospital of Pittsburgh Foundation
d/b/a UPMC Children’s Hospital Foundation

Table of Contents
June 30, 2024 and 2023

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Auditors' Report

To the Board of Trustees of
Children's Hospital of Pittsburgh Foundation d/b/a UPMC Children's Hospital Foundation

Opinion

We have audited the financial statements of Children's Hospital of Pittsburgh Foundation d/b/a UPMC Children's Hospital Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2024 and 2023, 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 (GAAP).

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 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 within one year after the date that 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 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 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.

Baker Tilly US, LLP

Pittsburgh, Pennsylvania
October 28, 2024

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Statements of Financial Position

June 30, 2024 and 2023

(Amounts in Thousands)

	<u>2024</u>	<u>2023</u>		<u>2024</u>	<u>2023</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 1,665	\$ 5,404	Due to UPMC Children's Hospital of Pittsburgh:		
Current portion of pledges receivable	11,128	11,620	Operating expenses	\$ 1,239	\$ 1,143
Current portion of assets whose use is limited	19,231	18,990	Annual financial support	2,884	4,284
Current portion of investments, donor restricted	<u>6,478</u>	<u>6,152</u>	Accrued expenses	<u>-</u>	<u>93</u>
Total current assets	38,502	42,166	Total liabilities	<u>4,123</u>	<u>5,520</u>
Assets Whose Use is Limited, Board Designated	155,115	151,117	Net Assets		
Investments, Donor Restricted	181,829	162,496	Without donor restrictions	162,178	154,534
Pledges Receivable, Net	20,479	18,700	With donor restrictions	<u>242,361</u>	<u>226,249</u>
Beneficial Interest in Charitable Remainder Trusts	363	339	Total net assets	404,539	380,783
Beneficial Interest in Perpetual Trusts	<u>12,374</u>	<u>11,485</u>			
Total assets	<u>\$ 408,662</u>	<u>\$ 386,303</u>	Total liabilities and net assets	<u>\$ 408,662</u>	<u>\$ 386,303</u>

See notes to financial statements

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Statements of Activities and Changes in Net Assets

Years Ended June 30, 2024 and 2023

(Amounts in Thousands)

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Contributions and bequests	\$ 13,329	\$ 29,110	\$ 42,439	\$ 14,607	\$ 37,307	\$ 51,914
Interest and dividends, net of fees	4,722	4,313	9,035	3,945	3,199	7,144
Contributed services	493	-	493	484	-	484
Change in discount	70	(942)	(872)	(4)	(398)	(402)
Allowance for doubtful pledges and pledges written off	-	(18)	(18)	-	(564)	(564)
Total revenues and other support before net assets released from restrictions	18,614	32,463	51,077	19,032	39,544	58,576
Net assets released from restrictions used for, Annual financial support and other operating expenses	24,525	(24,525)	-	23,150	(23,150)	-
Total revenues and other support	43,139	7,938	51,077	42,182	16,394	58,576
Expenses						
Contributions to UPMC Children's Hospital of Pittsburgh, Annual financial support and petition requests	40,605	-	40,605	31,942	-	31,942
Fundraising	7,372	-	7,372	6,770	-	6,770
General and administrative	3,066	-	3,066	3,027	-	3,027
Total expenses	51,043	-	51,043	41,739	-	41,739
Increase (decrease) in net assets before other changes in net assets	(7,904)	7,938	34	443	16,394	16,837
Other Changes in Net Assets						
Net realized and unrealized gain on investments	15,548	16,810	32,358	12,254	11,942	24,196
Valuation gain, beneficial interest in charitable remainder trusts	-	24	24	-	24	24
Valuation gain, beneficial interest in perpetual trusts	-	889	889	-	547	547
Reclassification of net assets	-	-	-	(1,117)	1,117	-
Transfer of net assets	-	(9,549)	(9,549)	-	(963)	(963)
Increase in net assets	7,644	16,112	23,756	11,580	29,061	40,641
Net Assets, Beginning	154,534	226,249	380,783	142,954	197,188	340,142
Net Assets, Ending	\$ 162,178	\$ 242,361	\$ 404,539	\$ 154,534	\$ 226,249	\$ 380,783

See notes to financial statements

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Statements of Cash Flows

Years Ended June 30, 2024 and 2023

(Amounts in Thousands)

	2024	2023
Cash Flows From Operating Activities		
Increase in net assets	\$ 23,756	\$ 40,641
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Provision for doubtful pledges	18	309
Net realized and unrealized gains on investments	(32,358)	(24,196)
Valuation gain, beneficial interest in charitable remainder trusts	(24)	(24)
Valuation gain, beneficial interest in perpetual trusts	(889)	(547)
Contributions of endowment funds restricted in perpetuity	(4,880)	(3,564)
Changes in assets and liabilities:		
Pledges receivable	(1,305)	(11,463)
Due to UPMC Children's Hospital of Pittsburgh:		
Operating expenses	96	159
Annual financial support	(1,400)	1,951
Accrued expenses	(93)	87
Net cash (used in) provided by operating activities	(17,079)	3,353
Cash Flows Provided by (Used In) Investing Activities		
Net sales and maturities (purchases) of investments and assets whose use is limited	4,330	(3,875)
Cash Flows Provided by Financing Activities		
Contributions of endowment funds restricted in perpetuity	4,880	3,564
Net change in cash and cash equivalents and restricted cash and cash equivalents	(7,869)	3,042
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	14,511	11,469
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	<u>\$ 6,642</u>	<u>\$ 14,511</u>
Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents to Statements of Financial Position		
Cash and cash equivalents	\$ 1,665	\$ 5,404
Cash and cash equivalents included in assets whose use is limited	4,977	9,107
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 6,642</u>	<u>\$ 14,511</u>

See notes to financial statements

Children's Hospital of Pittsburgh Foundation d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

1. Organization

Children's Hospital of Pittsburgh Foundation d/b/a UPMC Children's Hospital Foundation (the Foundation) was created on July 1, 2000, primarily to support the fund-raising and development efforts of the UPMC Children's Hospital of Pittsburgh.

2. Affiliation Agreement

On October 31, 2001, Children's Hospital of Pittsburgh consummated an affiliation with University of Pittsburgh Medical Center (UPMC Health System or UPMC) pursuant to the terms of the Integration and Affiliation Agreement (the Affiliation Agreement) by and among the Children's Hospital of Pittsburgh, the Foundation and UPMC Health System (collectively, the Parties). As a result of the Affiliation Agreement, Children's Hospital of Pittsburgh became UPMC Children's Hospital of Pittsburgh (the Hospital). Under the terms of the Affiliation Agreement, the Foundation was reorganized such that the UPMC Children's Hospital of Pittsburgh was no longer the sole corporate member of the Foundation and the Foundation has no corporate member. The Foundation is structured as a supporting organization of the Hospital.

The terms of the Affiliation Agreement provided that UPMC Health System would construct a new pediatric hospital (the New CHP) for the Hospital. Pursuant to an amendment entered into by the Parties on September 28, 2004, the Foundation was required to provide funding for the New CHP in the amount of \$50,000 (the Initial Funding Commitment). The Initial Funding Commitment was fulfilled upon completion of the New CHP in May 2009.

In January 2007, the Affiliation Oversight Committee approved an increase to the projected cost for the design and construction of the New CHP of \$46,800 and the Foundation agreed in September 2007 to fund the \$46,800 increased project costs (Additional Funding Commitment). The Additional Funding Commitment was fulfilled in October 2013.

The Affiliation Agreement required the Hospital, after receiving Orphan's Court and regulatory approval, to transfer to the Foundation certain unrestricted and restricted investments, as well as the Hospital's beneficial interests in certain perpetual trusts. The Affiliation Agreement requires that the Foundation, for the longer of 20 years or for so long as the Foundation supports the mission of the Hospital, will provide annual financial support equal to 5% of the rolling average corpus of such transferred investments, beneficial interests in certain perpetual trusts and donations received thereafter, unless the original donor specified a different spending provision. This annual funding commitment is conditional upon the Hospital delivering to the Foundation a broad range of funding requests, and to meet certain standards selected by the Parties as indicators of the Hospital's continued or improved performance.

3. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared in conformity with accounting principles generally accepted in the United States of America, including accounting standards as they relate to financial statements of not-for-profit organizations. The Financial Accounting Standards Board's (FASB) guidance requires the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of activities; reporting the sources and uses of cash and cash equivalents in a statement of cash flows and reporting expenses by natural and functional classification.

Children's Hospital of Pittsburgh Foundation

d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

Net assets and revenues, gains, expenses and losses are classified as without donor restriction or with donor restriction based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees (the Board) or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions - Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from donor restrictions. Additionally, funds received as gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity are reported as net assets with donor restrictions.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Foundation evaluated subsequent events for recognition or disclosure through October 28, 2024, the date the financial statements were available to be issued.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase, excluding assets whose use is limited and investments.

No collateral or security is provided on these investments, other than the insurance on interest bearing deposits per financial institution by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses from maintaining these accounts in excess of federally insured limits. Management believes it is not subject to significant risks associated with these accounts.

Pledges Receivable

Unconditional pledges to contribute cash and other assets are reported at their estimated fair value at the date the promise is received. Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated net realizable future cash flows. The discount rates used range from 0.88% to 4.58% depending on when the pledge was initially received.

The Foundation annually evaluates the collectability of its pledges receivable and either reserves for or writes off uncollectible pledges when it is determined the pledge is uncollectible.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not included as support until such time as the conditions are substantially met.

Children's Hospital of Pittsburgh Foundation

d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

Investments and Assets Whose Use Is Limited

The Foundation's investments are reported in the statements of financial position as follows:

Assets Whose Use is Limited, Board Designated - These investments represent funds where the Board has restricted the use over the corpus, and funds of which the Board retains control and may at its discretion subsequently use for other purposes.

Investments, Donor Restricted - These investments represent primarily endowed funds for which the corpus is restricted and the related investment income is restricted for specifically designated expenditures.

Investments are in equity investments, fixed income investments and alternative investment strategies, including hedge funds and private equity.

Investments with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends, net of investment fees) is included in the determination of increase (decrease) in net assets without donor restrictions unless the income is restricted by donor or law. Interest income is recorded as earned on the accrual basis using the effective yield method. Dividends are recorded on the accrual basis based on the ex-dividend date.

The fair value of the Foundation's alternative investments is based on the beginning value of the Foundation's interest in the investment plus actual contributions and allocated investment income or loss less actual distributions and allocated administrative expense. If available, quoted market prices are used to value alternative investments. Securities that have no available quoted market price are presented at estimated fair value as determined by the trustee using the net asset value practical expedient.

Although the Foundation's investments are invested in a variety of financial instruments, the related fair values, as reported in the statements of financial position, are subject to various market risks, including changes in the equity markets, the interest rate environment and economic conditions. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the fair value of investments reported in the accompanying statements of financial position could materially change in the near future.

Beneficial Interest in Charitable Remainder Trusts

The Foundation has been designated as the beneficiary of certain charitable remainder trusts created by donors and held by entities other than the Foundation. Under the terms of the trusts, the Foundation will receive a portion of the assets that remain in the trusts when they are terminated, typically upon death of the current beneficiary. Upon being designated as the beneficiary, the Foundation recorded an asset and recognized contribution revenues with donor restrictions. The beneficial interest recorded by the Foundation is measured at the present value of the estimated future cash payments to be distributed to the Foundation. Subsequent changes in fair value are recorded as valuation gains or losses in net assets with donor restrictions.

Children's Hospital of Pittsburgh Foundation

d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

Beneficial Interest in Perpetual Trusts

The Foundation has been designated as the beneficiary of certain perpetual trusts created by donors and held by entities other than the Foundation. Under the terms of the trusts, the Foundation will receive a portion of the income earned on trust assets in perpetuity. Upon being designated as the beneficiary, the Foundation recorded an asset and recognized contribution revenues with donor restrictions. The beneficial interest recorded by the Foundation is measured at the fair value of the Foundation's interest in the trust assets. Subsequent changes in fair value are recorded as valuation gains or losses in net assets with donor restrictions.

Donor Restricted Gifts

The Affiliation Agreement provides that all contributions from donors received for the benefit of the Hospital will be recorded and maintained by the Foundation. Contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions.

Income Tax Status

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (IRC), and is exempt from federal taxes on its exempt income under Section 501(a) of the IRC. Accordingly, no provision for federal and state income taxes is recorded.

The Foundation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2024 and 2023.

4. Pledges Receivable

Pledges receivable consist of the following at June 30:

	2024	2023
Pledges due within one year	\$ 11,128	\$ 11,620
Pledges due in one to five years	21,384	14,158
Pledges due in more than five years	1,920	6,349
Total pledges receivable, gross	34,432	32,127
Less discount to net present value	2,825	1,807
Total pledges receivable, net	31,607	30,320
Less current portion of pledges receivable	11,128	11,620
Noncurrent portion of pledges receivable	\$ 20,479	\$ 18,700

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

5. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited consist of the following at June 30:

	2024	2023
Cash and cash equivalents	\$ 4,977	\$ 9,107
U.S. government obligations	30,797	31,571
Corporate bonds	16,419	16,484
Mortgage and asset backed obligations	11,009	10,102
Mutual funds:		
International	109,113	97,453
Large-cap	117,460	102,991
Mid-cap	31,151	28,660
Small-cap	20,786	18,706
Alternative investments:		
Private investment partnership funds	15,565	17,069
Distressed debt funds	5,376	6,612
Total investments and assets whose use is limited	<u>\$ 362,653</u>	<u>\$ 338,755</u>

Investments and assets whose use is limited are reported in the accompanying statements of financial position as follows:

	2023	2023
Current portion of assets whose use is limited	\$ 19,231	\$ 18,990
Current portion of investments, donor restricted	6,478	6,152
Assets whose use is limited, board designated	155,115	151,117
Investments, donor restricted	181,829	162,496
Total investments and assets whose use is limited	<u>\$ 362,653</u>	<u>\$ 338,755</u>

The current portions of assets whose use is limited and investments are based upon management's estimate of the amounts required to meet the Foundation's annual financial support to the Hospital in the following year.

The Foundation's investments, primarily held with PNC Bank, consist of cash and cash equivalents, mutual funds, corporate bonds, government obligations and certain alternative investments. The fair value of the Foundation's alternative investments have been valued using the net asset value practical expedient in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners of these investments.

The Foundation's private investment partnership funds and distressed debt fund agreements obligate the Foundation to provide advance funding periodically up to specified levels. The Foundation had unfunded commitments of \$2,513 at June 30, 2024 and \$2,577 at June 30, 2023 to a variety of private equity, natural resources, venture capital and international funds. The Foundation expects these commitments to be funded over the next several years, depending on market conditions.

The Foundation's private investment partnership funds and distressed debt funds cannot be redeemed. Instead, the nature of these investments is that distributions are received through the liquidation of the underlying assets of the funds. The Foundation does have the ability to sell these funds on secondary markets.

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

Total investment return, net of related investment fees, consists of the following:

	<u>2024</u>	<u>2023</u>
Interest and dividends	\$ 9,175	\$ 7,257
Less investment fees	<u>(140)</u>	<u>(113)</u>
Interest and dividends, net	9,035	7,144
Net realized and unrealized gains	<u>32,358</u>	<u>24,196</u>
Total investment return	<u><u>\$ 41,393</u></u>	<u><u>\$ 31,340</u></u>

6. Fair Value Measurements

The Foundation measures its investments and assets whose use is limited, beneficial interest in charitable remainder trusts, and beneficial interest in perpetual trusts at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Foundation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

The following tables present the Foundation's financial instruments measured and reported at fair value at June 30, 2024 and 2023:

	2024			
	Level 1	Level 2	Level 3	Total Fair Value
Investments and assets whose use is limited:				
U.S. government obligations	\$ 30,797	\$ -	\$ -	\$ 30,797
Corporate bonds	16,419	-	-	16,419
Mortgage and asset backed obligations	11,009	-	-	11,009
Mutual funds	278,510	-	-	278,510
Total	336,735	-	-	336,735
Investments and assets whose use is limited reported at net asset value:				
Private investment partnership funds				15,565
Distressed debt funds				5,376
Cash and cash equivalents				4,977
Total investments and assets whose use is limited				362,653
Beneficial interest in charitable remainder trusts	-	-	363	363
Beneficial interest in perpetual trusts	-	-	12,374	12,374
Total	\$ 336,735	\$ -	\$ 12,737	\$ 375,390

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

	2023			
	Level 1	Level 2	Level 3	Total Fair Value
Investments and assets whose use is limited:				
U.S. government obligations	\$ 31,571	\$ -	\$ -	\$ 31,571
Corporate bonds	16,484	-	-	16,484
Mortgage and asset backed obligations	10,102	-	-	10,102
Mutual funds	247,810	-	-	247,810
Total	305,967	-	-	305,967
Investments and assets whose use is limited reported at net asset value:				
Private investment partnership funds				17,069
Distressed debt funds				6,612
Cash and cash equivalents				9,107
Total investments and assets whose use is limited				338,755
Beneficial interest in charitable remainder trusts	-	-	339	339
Beneficial interest in perpetual trusts	-	-	11,485	11,485
Total	\$ 305,967	\$ -	\$ 11,824	\$ 350,579

Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The table below sets forth a summary of certain changes in the fair value of the Foundation's Level 3 assets for the years ended June 30:

	2024		
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Purchases/additions	\$ 24	\$ 889	\$ 913
Sales/deductions	-	-	-

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

	2023		
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Purchases/additions	\$ 24	\$ 547	\$ 571
Sales/deductions	-	-	-

The following is a description of the valuation methodologies used for financial instruments reported at fair value. There have been no changes in methodologies used at June 30, 2024 and 2023.

Corporate bonds, U.S. government obligations, mutual funds and mortgage and asset backed obligations are valued at fair value based on quoted market prices for identical securities in active markets that the Foundation has the ability to access at the measurement date.

The Foundation's private investment partnership funds and distressed debt funds have been valued using the net asset value practical expedient in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners of these investments.

The private investment partnership funds' investment objective is to seek the preservation of capital and to provide long-term rates of return in excess of the publicly traded markets. The Foundation is invested in eight separate funds invested in a variety of markets, including venture capital, domestic private equity, international private equity and natural resources.

The distressed debt funds' investment objective is to seek the preservation of capital and to provide long-term rates of return comparable to returns generated by top performing domestic fixed income funds. The Foundation is invested in five separate funds invested in a variety of corporate equity and debt instruments.

The beneficial interest in charitable remainder trusts is valued at fair value based on the net present value of the future distributions of the trust assets.

The beneficial interest in perpetual trusts is valued at fair value based on the Foundation's interest in the fair value of the assets held by the trust, which represents a proxy for the discounted present value of future cash flows.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

7. Liquidity and Availability of Resources

The following table reflects the Foundation's financial assets available for general expenditure within one year at June 30, 2024 and 2023. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Unavailable financial assets consist of donor restricted funds not expected to be released from restrictions within the next year, and investments with redemption restrictions.

	2024	2023
Financial assets:		
Cash and cash equivalents	\$ 1,665	\$ 5,404
Current portion of pledges receivable	11,128	11,620
Current portion of assets whose use is limited	19,231	18,990
Current portion of investments	6,478	6,152
Assets whose use is limited, board designated	155,115	151,117
Total financial assets	193,617	193,283
Less financial assets unavailable for general expenditures within one year:		
Current portion of pledges receivable whose proceeds are donor restricted	(8,650)	(9,532)
Investments with redemption restrictions	(20,941)	(23,681)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 164,026	\$ 160,070

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Foundation invests cash in excess of daily requirements at the discretion of the Board.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2024	2023
Restricted for specific purposes:		
Research	\$ 28,537	\$ 26,001
Healthcare services and programs	130,069	118,449
Total restricted for specific purposes	158,606	144,450
Restricted in perpetuity:		
Endowment funds	67,980	65,092
Beneficial interest in perpetual trusts	12,374	11,485
Pledges receivable, proceeds to be permanently restricted	3,401	5,222
Total restricted in perpetuity	83,755	81,799
Total net assets with donor restrictions	\$ 242,361	\$ 226,249

The income earned from endowment funds is primarily restricted to support research activities. The income generated from beneficial interests in perpetual trusts is available for operations unless restricted as established by each trust agreement. The restricted purposes as established by certain trusts includes benevolent care and special purpose funds.

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

9. Endowment Funds

The Foundation's endowments were established for a variety of purposes, and include both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by FASB authoritative guidance, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation interprets the Commonwealth of Pennsylvania Act 141 (PA Act 141) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Further it is also the Foundation's interpretation that the PA Act 141 allows for the use of 5% of the fair value of the gift to the extent that the investment return was not sufficient to fund the purpose of the gift during the year. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions to be held in perpetuity: (a) the original value of gifts donated to the endowment; and (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by PA Act 141.

Endowment Fund Activity

The Foundation's endowment funds consist of the following at June 30:

	2024	2023
Board designated	\$ 2,793	\$ 2,496
Available for expenditures for specific purposes	71,942	61,032
Original corpus restricted in perpetuity	67,980	65,092
	<u>\$ 142,715</u>	<u>\$ 128,620</u>

The changes in endowment net assets is comprised of the following for the years ended June 30, 2024 and 2023:

	2024			
	Board Designated	Available for Expenditures	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	\$ 2,496	\$ 61,032	\$ 65,092	\$ 128,620
Investment return	297	21,122	-	21,419
Contributions	-	-	4,879	4,879
Reclassifications and other changes	-	-	(1,991)	(1,991)
Appropriation of endowment assets for expenditures, annual transfer for operations	-	(10,212)	-	(10,212)
Endowment net assets, end of year	<u>\$ 2,793</u>	<u>\$ 71,942</u>	<u>\$ 67,980</u>	<u>\$ 142,715</u>

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

	2023			
	Board Designated	Available for Expenditures	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	\$ 2,273	\$ 54,022	\$ 61,521	\$ 117,816
Investment return	223	15,138	-	15,361
Contributions	-	-	3,564	3,564
Reclassifications and other changes	-	-	7	7
Appropriation of endowment assets for expenditures, annual transfer for operations	-	(8,128)	-	(8,128)
Endowment net assets, end of year	<u>\$ 2,496</u>	<u>\$ 61,032</u>	<u>\$ 65,092</u>	<u>\$ 128,620</u>

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PA Act 141 requires the Foundation to retain as a fund of perpetual duration. In accordance with FASB authoritative guidance deficiencies of this nature that are reported in net assets with donor restrictions were \$2 and \$15 at June 30, 2024 and 2023, respectively.

Return Objectives and Risk Parameters

The investment philosophy of the Foundation is based on a disciplined, consistent and diversified approach utilizing multiple asset classes and multiple managers. The Foundation's intent is to accommodate styles and strategies considered reasonable and prudent. Assets are invested with investment managers who invest in mutual funds, corporate bonds and governmental obligations. Additionally, a portion of the funds are invested in alternative investments which include investments in private investment partnership funds and distressed debt funds. The primary objective is to grow the assets to ensure the Foundation can continue to support the Hospital's operations.

Strategies Employed for Achieving Objectives

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 is set by the Foundation's Finance and Investment Committee. The investment assets are invested according to the following asset allocation guideline:

	Current Targets	Long-Term Future Target Range
Domestic large-cap equity	30.00 %	15.00 - 35.00 %
Domestic mid to small-cap equity	15.00	5.00 - 17.50
International developed equity	15.00	8.00 - 18.50
Emerging markets	15.00	8.00 - 18.50
Fixed income	20.00	8.00 - 30.00
Hedge funds	0.00	0.00 - 10.00
Private equity	5.00	0.00 - 15.00

Children's Hospital of Pittsburgh Foundation d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

Spending Policy and How the Investment Objectives Relate to Spending Policy

PA Act 141 states that provided an organization adopts and follows an investment policy seeking a total return for the assets held, the organization may annually select a spending percentage between 2% and 7% of the three year average fair market value of the assets held by an organization.

The Affiliation Agreement requires that the Foundation will provide annual financial support equal to 5% of the rolling 12 quarter average of the corpus (defined as the value of all of the Foundation's assets less any funds held by the Foundation where the donor has directed a different spending provision). Such calculation includes the endowment funds. Any shortfalls of earnings may be made from excess earnings in prior years.

10. Related-Party Transactions

Annual Financial Support

The Foundation entered into an agreement to provide annual financial support to the Hospital (Note 2). The Foundation provided annual financial support of \$40,605 in 2024 and \$31,942 in 2023. Amounts owed to the Hospital under this agreement were \$2,884 at June 30, 2024 and \$4,284 at June 30, 2023.

Operating Expenses

Certain expenditures, primarily operating expenses, are paid by the Hospital and subsequently reimbursed by the Foundation. Accounts payable relating to these transactions were \$1,239 at June 30, 2024 and \$1,143 at June 30, 2023.

Contributed Services

The Foundation entered into a lease agreement with the Hospital in 2019. Under the agreement, the Hospital agreed to provide office space to the Foundation beginning December 1, 2019. The lease renews annually at the discretion of the Hospital and the Foundation through December 31, 2029.

The Hospital contributed \$493 and \$484 of office space to the Foundation in 2024 and 2023, respectively. Expenses related to these contributed services are included in general and administrative expenses in the statements of activities and changes in net assets. The contributed services are valued using the agreement between the Hospital and the third-party company. The contributed services did not have any donor restrictions.

Conditional Promise to Give

The Board has approved a conditional promise to give to the Hospital, in an amount up to \$30,000 to support existing and future research initiatives. The funding will be provided as the Hospital incurs the expenses and submits requests for funding to the Foundation. To the extent they are available, donor restricted funds will be used to satisfy this promise to give. Any remaining amounts will be funded using net assets without donor restrictions. The funding will be available over the five year period ending in January 2025. The Foundation transferred \$3,407 and \$1,714 to the Hospital under this agreement for the years ended June 30, 2024 and 2023, respectively. The Foundation has transferred a total of \$20,221 towards the \$30,000 goal at June 30, 2024.

Children's Hospital of Pittsburgh Foundation
d/b/a UPMC Children's Hospital Foundation

Notes to Financial Statements
June 30, 2024 and 2023
(Amounts in Thousands)

The Board has approved a conditional promise to give to the Hospital, in an amount up to \$31,150 to support capital expenditures for the Heart Institute at UPMC Children's Hospital. The funding will be provided as the Hospital incurs the expenses and submits requests for funding to the Foundation on an annual basis starting in July 2023. To the extent they are available, donor restricted funds will be used to satisfy this promise to give. Any remaining amounts will be funded using net assets without donor restrictions. The estimated completion of the project and related funding is December 31, 2025. No transfers have been made to the Hospital under this agreement for the year ended June 30, 2024.

11. Functional Expenses

The Foundation's primary purpose is to support the fundraising and development efforts of the New CHP. Expenses by functional classification consist of the following for the years ended June 30, 2024 and 2023:

2024				
	Program	Fundraising	General and Administrative	Total
Salaries and wages	\$ -	\$ 3,494	\$ 1,513	\$ 5,007
Employee benefits and payroll taxes	-	770	335	1,105
Contracted services and professional fees	-	2,085	209	2,294
Office supplies and expenses	-	124	368	492
Event expenses	-	471	-	471
Other expenses	-	428	641	1,069
Contributions to UPMC Children's Hospital of Pittsburgh, annual financial support and petition requests	40,605	-	-	40,605
Total	\$ 40,605	\$ 7,372	\$ 3,066	\$ 51,043
2023				
	Program	Fundraising	General and Administrative	Total
Salaries and wages	\$ -	\$ 3,084	\$ 1,500	\$ 4,584
Employee benefits and payroll taxes	-	723	241	964
Contracted services and professional fees	-	2,029	200	2,229
Office supplies and expenses	-	72	261	333
Event expenses	-	413	-	413
Other expenses	-	449	825	1,274
Contributions to UPMC Children's Hospital of Pittsburgh, annual financial support and petition requests	31,942	-	-	31,942
Total	\$ 31,942	\$ 6,770	\$ 3,027	\$ 41,739