



**CHOC FOUNDATION**

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

# CHOC FOUNDATION

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## Independent Auditors' Report

The Board of Directors  
CHOC Foundation:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of CHOC Foundation, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHOC Foundation as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Irvine, California  
September 18, 2020

**CHOC FOUNDATION**  
Statements of Financial Position  
June 30, 2020 and 2019

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets:		
Cash and cash equivalents (note 3)	\$ 3,720,058	7,864,044
Pooled investments (note 4)	396,494	518,192
Assets whose use is limited, current (note 4)	9,340,695	5,403,810
Prepays and other current assets	610,230	485,699
Total current assets	14,067,477	14,271,745
Assets whose use is limited (note 4):		
Board-designated investments	18,040,359	17,273,629
Long-term pledges receivable, net of current portion	15,132,910	9,960,551
Charitable remainder trusts	587,114	392,787
Donor-designated funds	42,492,954	34,964,597
Total assets whose use is limited	76,253,337	62,591,564
Other assets:		
Property and equipment, net (note 7)	902,641	1,045,739
Total assets	\$ 91,223,455	77,909,048
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,618,110	1,650,870
Payable to related parties (note 11)	1,359,893	2,001,313
Total liabilities	2,978,003	3,652,183
Net assets:		
Without donor restrictions		
Undesignated	2,651,419	6,261,491
Board-designated (note 8)	18,040,359	17,273,629
Total without donor restrictions	20,691,778	23,535,120
With donor restrictions (note 9)	67,553,674	50,721,745
Total net assets	88,245,452	74,256,865
Total liabilities and net assets	\$ 91,223,455	77,909,048

See accompanying notes to financial statements.

**CHOC FOUNDATION**

Statement of Activities

Year ended June 30, 2020

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Public support and revenue:			
Public support	\$ 7,073,757	36,554,355	43,628,112
Special events	5,593,337	2,836,620	8,429,957
Less costs of direct benefits to donors	(2,371,261)	—	(2,371,261)
Net special events revenue	3,222,076	2,836,620	6,058,696
Net public support and special events	10,295,833	39,390,975	49,686,808
Net assets released from restrictions	24,034,097	(24,034,097)	—
Investment and other income (note 5)	657,691	1,225,764	1,883,455
Change in value of split-interest agreements	—	194,327	194,327
Total public support and revenue	34,987,621	16,776,969	51,764,590
Expenses:			
Contributions to affiliates	25,344,086	—	25,344,086
Management, general, and institutional support	4,557,558	—	4,557,558
Fundraising expenses	7,929,319	—	7,929,319
Provision for uncollectible pledges	—	(54,960)	(54,960)
Total expenses	37,830,963	(54,960)	37,776,003
(Decrease) Increase in net assets	(2,843,342)	16,831,929	13,988,587
Net assets at beginning of year	23,535,120	50,721,745	74,256,865
Net assets at end of year	\$ 20,691,778	67,553,674	88,245,452

See accompanying notes to financial statements.

**CHOC FOUNDATION**

Statement of Activities

Year ended June 30, 2019

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Public support and revenue:			
Public support	\$ 5,998,791	24,163,438	30,162,229
Special events	9,804,662	170,683	9,975,345
Less costs of direct benefits to donors	(3,069,028)	(20,000)	(3,089,028)
Net special events revenue	6,735,634	150,683	6,886,317
Net public support and special events	12,734,425	24,314,121	37,048,546
Net assets released from restrictions	23,750,456	(23,750,456)	—
Investment and other income (note 5)	1,040,739	2,133,970	3,174,709
Change in value of split-interest agreements	—	(24,574)	(24,574)
Total public support and revenue	<u>37,525,620</u>	<u>2,673,061</u>	<u>40,198,681</u>
Expenses:			
Contributions to affiliates	26,400,084	—	26,400,084
Management, general, and institutional support	4,142,932	—	4,142,932
Fundraising expenses	6,722,173	—	6,722,173
Provision for uncollectible pledges	—	28,766	28,766
Total expenses	<u>37,265,189</u>	<u>28,766</u>	<u>37,293,955</u>
Increase in net assets	260,431	2,644,295	2,904,726
Net assets at beginning of year	<u>23,274,689</u>	<u>48,077,450</u>	<u>71,352,139</u>
Net assets at end of year	<u>\$ 23,535,120</u>	<u>50,721,745</u>	<u>74,256,865</u>

See accompanying notes to financial statements.

**CHOC FOUNDATION**

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Increase in net assets	\$ 13,988,587	2,904,726
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains on investments, net	(361,136)	(1,650,373)
Change in value of split-interest agreements	(194,327)	24,574
Depreciation	152,652	95,364
Decrease (increase) in operating assets:		
Pooled investments	(1,243,297)	(9,394,957)
Prepays and other current assets	(124,531)	179,519
Trusts and other receivables	362,071	650,777
Pledges receivable	(9,109,244)	3,282,947
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(11,275)	482,196
Payable to related parties	(641,420)	70,056
Net cash provided by (used in) provided by operating activities	2,818,080	(3,355,171)
Cash flows from investing activity:		
Purchase of property and equipment	(31,039)	(589,884)
Net cash used in investing activity	(31,039)	(589,884)
Net increase (decrease) in cash and cash equivalents	2,787,041	(3,945,055)
Cash, cash equivalents, and restricted cash at beginning of year	18,238,484	22,183,539
Cash, cash equivalents, and restricted cash at end of year	\$ 21,025,525	18,238,484
Supplemental disclosures of cash flow information:		
Change in capital expenditures accrued but not yet paid	\$ 21,485	79,128

See accompanying notes to financial statements.

## CHOC FOUNDATION

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(1) Organization and Purpose**

CHOC Foundation (the Organization) was formed to help support clinical and nonclinical medical education, research, and allied fields of pediatrics at Children's Hospital of Orange County (CHOC) and Children's Hospital at Mission (CCMH), and to support its other affiliates. Revenue is derived from fundraising activities organized by the Organization.

Children's HealthCare of California (CHC) is the sole member of the Organization. Other affiliates of CHC include CHOC, CCMH, Providence Speech and Hearing Center, and CRC Real Estate Corporation (CRC).

#### **(2) Summary of Significant Accounting Policies**

##### **(a) Basis of Presentation**

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

##### **(b) Cash and Cash Equivalents**

The Organization considers certain money market funds and all highly liquid investments with original or remaining maturities of three months or less when acquired to be cash equivalents.

##### **(c) Investments**

Investments classified as trading securities consist of corporate debt securities, U.S. Treasury and agency debt securities, private equity, domestic equity funds, and international common stocks held by CHC. All investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based upon their own quoted market prices or quoted market prices for similar instruments at the reporting date in the statements of financial position.

CHC invests in private equity through limited partnerships. These investments are reported using the equity method of accounting based on information provided by the respective partnerships. The values provided by the respective partnerships are based on fair value, appraisals, or other estimates of fair value that require varying degrees of judgement. Generally, the net asset value of CHC's holdings reflects net contributions to the partnerships and an allocated share of realized and unrealized investment income and expenses.

Investment income and losses from the CHC investment pool are allocated between CHC and other members of the pool, including the Organization, based upon investment balances. The Organization recognizes changes in its interest in the CHC investment pool using a method that is similar to the equity method of accounting.

Pooled investments held at the Organization are recorded at the Organization's share of the carrying value of the CHC investment pool. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses, interest, and dividends) is included in investment and other income in the accompanying statements of activities.



## CHOC FOUNDATION

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(d) Assets Whose Use is Limited**

Assets whose use is limited include assets whose use has been limited by donors, and assets designated by the board of directors for endowment, over which the board of directors retains control and may at its discretion subsequently use for other purposes. A portion of these assets is maintained in the pooled investment portfolio.

#### **(e) Net Assets with Donor Restrictions**

Net assets with donor restrictions are those funds whose use by the Organization has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Organization in perpetuity. The assets are generally invested by the Organization as part of its overall investment portfolio.

#### **(f) Contributions**

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value when all the conditions are met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as undesignated net assets and reported in the statements of activities as net assets released from restrictions.

#### **(g) Property and Equipment**

Property and equipment are stated at cost and are depreciated using the straight-line method over the following estimated useful lives:

Equipment	3 to 10 years
Leasehold improvements	Lesser of useful life or lease term

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Gifts of long-lived assets are recorded at fair value at the time the gift is made.

#### **(h) Impairment of Long-Lived Assets**

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If review indicates an impairment may have occurred, recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of

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### Notes to Financial Statements

June 30, 2020 and 2019

the asset exceeds the fair value of the asset. In addition to consideration of impairment due to the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over remaining lives. No impairment was recognized for the year ended June 30, 2020 or 2019.

#### **(i) Income Taxes**

The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statement taken as a whole.

GAAP requires the Organization's management to evaluate tax positions taken by the Organization and recognizes a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Organization and has concluded that as of June 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization's management believes it is no longer subject to income tax examinations for years prior to 2015.

#### **(j) 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 items subject to such estimates and assumptions include the carrying amount of property and equipment, trusts, bequests, and pledges receivable. Actual results could differ from those estimates.

#### **(k) Recently Issued Accounting Standards**

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which expands the qualitative and quantitative disclosure requirements around leasing transactions while also requiring lessees to recognize most leases on balance sheet. The Organization has completed an evaluation of the requirements of the new standard to ensure that there are processes, systems and internal controls in place to collect the necessary information to implement the standard, which became effective for the Organization on July 1, 2020. The primary effect of adopting the new standard will be the recording of right-of-use assets and obligation for the Organization's leases currently classified as operating leases totaling approximately \$6,200,000.

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## Notes to Financial Statements

June 30, 2020 and 2019

**(3) Cash, Cash Equivalents, and Restricted Cash**

The table below provides a reconciliation of cash, cash equivalents, and restricted cash reported on the balance sheet that sum to the total of those same amounts shown in the statement of cash flows.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,720,058	7,864,044
Restricted cash included in board-designated investments	105,484	7,003
Restricted cash included in donor-designated funds	<u>17,199,983</u>	<u>10,367,437</u>
	<u>\$ 21,025,525</u>	<u>18,238,484</u>

**(4) Investments and Assets Whose Use is Limited**

Certain of the Organization's investments are maintained in an investment portfolio managed by CHC as part of a commingled investment portfolio (pooled investments). The funds are held by a bank custodian and are managed by professional investment managers. The CHC investment pool consists of corporate debt securities, U.S. Treasury and agency debt securities, private equity, domestic equity funds, and international common stocks that have been classified as trading securities. All investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based upon their own quoted market prices or quoted market prices for similar instruments at the reporting date in the statements of financial position. Private equity investments are accounted for using the equity method of accounting based on information provided by the respective partnerships.

Pooled investments are recorded at the Organization's share of the carrying value of the CHC investment pool. The CHC investment pool at June 30, 2020 and 2019 was invested as follows (in percentages):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	15 %	13 %
Corporate debt securities	10	25
U.S. Treasury and agency debt securities	27	12
Domestic equity funds	32	34
International common stocks	<u>16</u>	<u>16</u>
	<u>100 %</u>	<u>100 %</u>



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Notes to Financial Statements  
June 30, 2020 and 2019

A summary of pledges receivable at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Pledges receivable before unamortized discount	\$ 28,248,691	18,174,954
Less unamortized discount	<u>(3,775,086)</u>	<u>(2,810,593)</u>
Net pledges receivable	<u>\$ 24,473,605</u>	<u>15,364,361</u>
Amounts due in:		
Less than one year	\$ 9,340,695	5,403,810
One year to five years	6,701,776	10,817,184
Six years or more	<u>12,206,220</u>	<u>1,953,960</u>
Total	<u>\$ 28,248,691</u>	<u>18,174,954</u>

Pledges receivable are discounted at the date of receipt. Discount rates applied to pledges receivable ranged from 4.625% to 9.25% for the fiscal years ended June 30, 2020 and 2019.

**(5) Investment and Other Income**

Investment and other income for cash and cash equivalents, pooled investments, and assets whose use is limited, included in undesignated interest and other income in the statements of activities, comprise the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 1,522,319	1,524,336
Net realized gain (loss) on investments	30,408	(24,365)
Net unrealized gain on investments	<u>330,728</u>	<u>1,674,738</u>
Total investment income	<u>\$ 1,883,455</u>	<u>3,174,709</u>

**(6) Liquidity and Capital Resources**

Financial assets available for general expenditure within one year of the balance sheet date consist of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,720,058	7,864,044
Pooled investments	396,494	518,192
Assets whose use is limited, board-designated funds	<u>18,040,359</u>	<u>17,273,629</u>
	<u>\$ 22,156,911</u>	<u>25,655,865</u>

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## Notes to Financial Statements

June 30, 2020 and 2019

The Organization has certain board-designated assets whose use is limited, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The Organization has other assets whose use is limited for donor-restricted purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

**(7) Property and Equipment**

A summary of property and equipment at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 501,241	501,241
Leasehold improvements	1,245,355	1,235,801
	<u>1,746,596</u>	<u>1,737,042</u>
Less accumulated depreciation and amortization	<u>(843,955)</u>	<u>(691,303)</u>
Property and equipment, net	<u>\$ 902,641</u>	<u>1,045,739</u>

For the fiscal years ended June 30, 2020 and 2019, the Organization recognized depreciation expense of \$152,652 and \$95,364, respectively.

**(8) Board-Designated Net Assets**

For the fiscal years ended June 30, 2020 and 2019, the Organization had board-designated net assets available for medical program costs of \$4,251,866 and \$4,185,319, respectively. The Organization also had available \$13,788,493 and \$13,088,310, respectively, for general activities.

## CHOC FOUNDATION

### Notes to Financial Statements

June 30, 2020 and 2019

#### (9) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2020 and 2019:

	2020	2019
Subject to expenditures for specified purposes:		
Healthcare services	\$ 9,632,905	12,482,180
Pledges receivable for building and equipment	736,389	1,744,432
Pledges receivable, restricted as to time	16,097,030	12,441,491
Trusts receivable, restricted as to time	587,114	392,787
Investments to be held in perpetuity, the income from which is ex expendable to support healthcare services	32,583,885	22,218,754
Endowments requiring income to be added to original gift	276,165	263,663
Pledges receivable, to be held in perpetuity	7,640,186	1,178,438
	\$ 67,553,674	50,721,745

#### (10) Endowment

Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, provides guidance relating to the treatment of net assets with donor restrictions to be consistent with the Uniform Prudent Management of Institution Funds Act of 2006 (UPMIFA) legislation. ASC 958 also provides guidance relating to disclosure about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds). The Organization's endowment consists of approximately 41 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the CHOC Foundation board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Foundation board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation board of directors has interpreted UPMIFA 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. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is purpose restricted is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the Organization and the donor-restricted endowment fund
- General economic conditions

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### Notes to Financial Statements

June 30, 2020 and 2019

- Possible effect of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the Organization
- Investment policies of the Organization

Donor-restricted endowment funds and the unexpended portion of the purpose-restricted endowment earnings are components of net assets with donor restrictions. Donor-restricted endowment funds include gifts totaling \$276,165 and \$263,663 as of June 30, 2020 and 2019, respectively, which require income to be added to the original gift until designated by the donor. Undesignated endowment net assets are board-designated. Changes in endowment net assets for the years ended June 30, 2020 and 2019:

	<u>Undesignated endowments</u>	<u>Donor-restricted endowments</u>	<u>Total</u>
Balance as of June 30, 2018	\$ 15,661,581	26,862,282	42,523,863
Contributions	775,425	1,880,850	2,656,275
Investment income	997,034	2,010,167	3,007,201
Appropriated for expenditure	<u>(160,411)</u>	<u>(894,934)</u>	<u>(1,055,345)</u>
Balance as of June 30, 2019	17,273,629	29,858,365	47,131,994
Contributions	196,363	16,826,880	17,023,243
Investment income	570,367	1,187,653	1,758,020
Appropriated for expenditure	<u>—</u>	<u>(906,433)</u>	<u>(906,433)</u>
Balance as of June 30, 2020	<u>\$ 18,040,359</u>	<u>46,966,465</u>	<u>65,006,824</u>

#### **(a) 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 requires that the Organization retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature, net of related donor-restricted income, are reported in net assets with donor restrictions. No deficiencies existed for fiscal year 2020 or 2019.

#### **(b) Return Objectives and Risk Parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated endowment funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Standard and Poor's 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% to 7% annually. Actual returns in any given year may vary from this amount.



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## Notes to Financial Statements

June 30, 2020 and 2019

**(c) Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Organization 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.

**(d) Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Organization has a policy of appropriating for distribution each year from 3% to 5% of its endowment fund's average fair value over the prior nine quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned unless specified differently by the donor in the endowment gift agreement. In establishing this policy, the Organization considered the long-term expected return on its endowments. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 1% to 3% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**(11) Related-Party Transactions****(a) Donations**

The Organization holds trusts and pledges receivable for which the donor has specified its affiliates as the beneficiary. As of June 30, 2020 and 2019, trusts and pledges receivable held for the benefit of CHOC and CCMH totaled \$16,366,018 and \$13,150,685, respectively, as a component of assets whose use is limited in the statements of financial position.

**(b) Contributions to Affiliates**

The Organization receives contributions on behalf of CHOC and CCMH and transfers the funds to its affiliates as specified by the donors. During the years ended June 30, 2020 and 2019, the Organization transferred contributions to affiliates of \$25,344,086 and \$26,400,084, respectively. At June 30, 2020 and 2019, the Organization had a payable to CHOC of \$1,254,899 and \$1,899,426, respectively, and payable to CCMH of \$51,661 and \$48,554, respectively.

**(c) Management Agreement**

The Organization has a written agreement with CHOC under which CHOC provides certain managerial and accounting services to the Organization. The Organization incurred fees of \$600,000 with CHOC during fiscal years 2020 and 2019 under such agreement. At June 30, 2020 and 2019, the Organization had a payable to CHOC of \$50,000. Also, the Organization has a similar agreement with CHC for certain other managerial services. The Organization incurred fees of \$39,996 under this agreement with CHC during fiscal years 2020 and 2019. At June 30, 2020 and 2019, the Organization had a payable to CHC of \$3,333. All of these fees are included in management, general, and institutional support; and fundraising in the accompanying statements of activities.

**CHOC FOUNDATION**

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June 30, 2020 and 2019

**(d) Rental Expenses**

The Organization rents office facilities from CRC, the expense for which totaled \$645,377 and \$476,966 for the years ended 2020 and 2019, respectively, and is included in management, general, and institutional support and fundraising expenses in the accompanying statements of activities.

The Organization entered into a 10-year lease for new office facilities with CRC that commenced February 2019. The total rent payable for the 10-year period will be \$5,715,839, an average of \$571,584 annually.

**(12) Functional Expenses**

The Organization supports CHOC, CCMH, and its affiliates in providing healthcare services to residents within its geographic location. Operating expenses at June 30, 2020 and 2019 are presented by their functional classifications as follows for the years ended June 30:

	<b>2020</b>			
	<b>Program activities</b>	<b>Supporting activities</b>		<b>Total operating expenses</b>
	<b>Affiliate support</b>	<b>Mgmt, general, and institutional support</b>	<b>Fundraising</b>	
Salaries	\$ —	2,908,562	5,299,803	8,208,365
Purchased services	—	805,201	850,221	1,655,422
Supplies	—	213,284	951,428	1,164,712
Rent	—	435,910	266,071	701,981
Depreciation	—	100,750	51,902	152,652
Other	—	93,851	454,934	548,785
Contributions to affiliates	25,344,086	—	—	25,344,086
	<u>\$ 25,344,086</u>	<u>4,557,558</u>	<u>7,874,359</u>	<u>37,776,003</u>

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2019				
	Program activities	Supporting activities		Total operating expenses
	Affiliate support	Mgmt, general, and institutional support	Fundraising	
Salaries	\$ —	2,825,627	4,219,200	7,044,827
Purchased services	—	693,190	738,654	1,431,844
Supplies	—	114,363	612,906	727,269
Rent	—	318,973	169,983	488,956
Depreciation	—	62,940	32,424	95,364
Other	—	127,839	977,772	1,105,611
Contributions to affiliates	26,400,084	—	—	26,400,084
	\$ 26,400,084	4,142,932	6,750,939	37,293,955

**(13) Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to significant concentration of credit risk consist principally of cash and cash equivalents, pooled investments, assets whose use is limited, pledge receivables, and trust receivables held by the Organization. Although the majority of its cash and cash equivalents accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by its financial institutions and it reviews the financial viability of these institutions on a periodic basis. The Organization attempts to limit its risk on investments and assets whose use is limited by having an active investment committee of the board of directors approve the investment policy, diversification of funds, investment manager selection, and asset allocation on a regular basis for compliance. The Organization attempts to limit its risk on pledge receivables and trust receivables by evaluating the donors' credentials and their ability to fulfill their promise.

**(14) Subsequent Events**

The Organization has evaluated subsequent events from the statement of financial position date through September 18, 2020, the date on which the financial statements were available to be issued.