



CHOC FOUNDATION

Financial Statements

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

CHOC FOUNDATION

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
CHOC Foundation:

Opinion

We have audited the financial statements of CHOC Foundation (the Organization), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities 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 Organization as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 Organization 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 U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

KPMG LLP

Irvine, California
September 23, 2024

CHOC FOUNDATION

Statements of Financial Position

June 30, 2024 and 2023

(In thousands)

Assets	2024	2023
Current assets:		
Cash and cash equivalents (note 3)	\$ 5,762	4,767
Investments, current (note 4)	22,165	20,593
Assets whose use is limited, current (note 4)	13,395	10,822
Prepays and other current assets	927	731
Total current assets	42,249	36,913
Assets whose use is limited (notes 3 and 4):		
Long-term pledges receivable, net of current portion	21,934	13,624
Charitable remainder trusts	450	447
Donor-designated funds	63,723	55,306
Total assets whose use is limited	86,107	69,377
Investments, noncurrent (note 4)	3,234	2,094
Other assets:		
Property and equipment, net (note 7)	335	443
Operating lease right-of-use assets (note 8)	5,086	5,558
Total assets	\$ 137,011	114,385
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,144	1,867
Payable to related parties (note 11)	1,411	1,358
Operating lease liabilities, current (note 8)	491	462
Total current liabilities	4,046	3,687
Operating lease liabilities (note 8)	5,100	5,589
Total liabilities	9,146	9,276
Net assets:		
Without donor restrictions	25,129	22,817
With donor restrictions (note 9)	102,736	82,292
Total net assets	127,865	105,109
Total liabilities and net assets	\$ 137,011	114,385

See accompanying notes to financial statements.

CHOC FOUNDATION

Statement of Activities

Year ended June 30, 2024

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Public support and revenue:			
Public support	\$ 8,436	36,890	45,326
Special events	11,445	—	11,445
Less costs of direct benefits to donors	(4,184)	—	(4,184)
Net special events revenue	7,261	—	7,261
Net public support and special events	15,697	36,890	52,587
Net assets released from restrictions	23,100	(23,100)	—
Investment and other gains (note 5)	2,257	6,925	9,182
Change in value of split-interest agreements	—	3	3
Total public support and revenue	41,054	20,718	61,772
Expenses (note 12):			
Program activities	29,593	—	29,593
Management and general support	2,099	—	2,099
Fundraising expenses	7,050	274	7,324
Total expenses	38,742	274	39,016
Changes in net assets	2,312	20,444	22,756
Net assets at beginning of year	22,817	82,292	105,109
Net assets at end of year	\$ 25,129	102,736	127,865

See accompanying notes to financial statements.

CHOC FOUNDATION

Statement of Activities

Year ended June 30, 2023

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Public support and revenue:			
Public support	\$ 9,707	24,456	34,163
Special events	9,653	—	9,653
Less costs of direct benefits to donors	(3,690)	—	(3,690)
Net special events revenue	5,963	—	5,963
Net public support and special events	15,670	24,456	40,126
Net assets released from restrictions	25,203	(25,203)	—
Investment and other gains (note 5)	1,474	4,656	6,130
Change in value of split-interest agreements	—	(90)	(90)
Total public support and revenue	42,347	3,819	46,166
Expenses (note 12):			
Program activities	30,435	—	30,435
Management and general support	2,108	—	2,108
Fundraising expenses	6,522	207	6,729
Total expenses	39,065	207	39,272
Changes in net assets	3,282	3,612	6,894
Net assets at beginning of year	19,535	78,680	98,215
Net assets at end of year	\$ 22,817	82,292	105,109

See accompanying notes to financial statements.

CHOC FOUNDATION

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Changes in net assets	\$ 22,756	6,894
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized and unrealized (gains) on investments, net	(6,664)	(4,463)
Change in value of split-interest agreements	(3)	90
Depreciation	108	153
Reduction of operating lease right-of-use assets	473	465
Changes in operating assets:		
Prepays and other current assets	(196)	211
Other receivables	97	(488)
Pledges receivable	(10,883)	2,549
Changes in operating liabilities:		
Accounts payable and accrued liabilities	277	653
Payable to related parties	53	(2,488)
Operating lease liabilities	(460)	(434)
Net cash provided by operating activities	<u>5,558</u>	<u>3,142</u>
Cash flows from investing activities:		
Pooled investments	(441)	(2,167)
Purchase of property and equipment	2	—
Net cash used in investing activities	<u>(439)</u>	<u>(2,167)</u>
Net change in cash and cash equivalents	5,119	975
Cash, cash equivalents, and restricted cash at beginning of year	<u>22,700</u>	<u>21,725</u>
Cash, cash equivalents, and restricted cash at end of year (note 3)	<u>\$ 27,819</u>	<u>22,700</u>

See accompanying notes to financial statements.

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2024 and 2023

(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 (CHAM), 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, CHAM, Providence Speech and Hearing Center (PSHC), and CRC Real Estate Corporation (CRC). On December 17, 2023, CHC, CHOC, and CHAM entered into an Affiliation Agreement (the "Affiliation Agreement") with Rady Children's Hospital and Health Center ("RCHHC") and Rady Children's Hospital – San Diego ("RCHSD"). RCHHC is the sole corporate member of RCHSD. The Affiliation Agreement contemplates, among other things, that CHC would merge with and into RCHHC, such that RCHHC would survive as the sole corporate member of RCHSD, CHOC, CHAM, and CHOC Foundation, among other subsidiaries. The parties anticipate the transaction will become effective in calendar year 2024, subject to receipt of regulatory approvals and satisfaction of all closing conditions.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Cash and Cash Equivalents

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

(c) Investments

The CHC investment pool includes investments classified as trading securities which, consist of corporate debt securities, US Treasury and agency debt securities, private equity and credit funds, 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 and credit funds 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.

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Notes to Financial Statements

June 30, 2024 and 2023

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 gains and losses in the accompanying statements of activities for the years ended June 30, 2024 and 2023, respectively.

(d) Assets Whose Use is Limited

Assets whose use is limited include assets whose use has been limited by donors. 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 as public support in the accompanying statements of activities 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 net assets without donor restrictions 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.

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Notes to Financial Statements

June 30, 2024 and 2023

(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 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 years ended June 30, 2024 and 2023.

(i) Leases

The Organization accounts for leases in accordance with Accounting Standards Codification (ASC) Topic 842, *Leases* (note 8). The Organization determines if an arrangement is or contains a lease at contract inception. The Organization recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to the Organization or the Organization is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with the Organization's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in the Organization's statements of operations in the same line item as expense arising from fixed lease payments (operating leases) or amortization of the ROU asset (finance leases).

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Notes to Financial Statements

June 30, 2024 and 2023

ROU assets for operating and finance leases are periodically assessed for impairment losses. The Organization uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, issued by Financial Accounting Standards Board (FASB), to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. The Organization monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

Operating lease ROU assets are presented as operating lease ROU assets on the statements of financial position. The current and noncurrent portions of operating lease liabilities are presented separately on the statements of financial position. The Organization currently has no finance leases.

The Organization has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Organization recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other Organization leases.

(j) 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, 2024 and 2023, 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 2020.

(k) 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 fair value investments and the carrying amount of property and equipment, trusts, bequests, and pledges receivable. Actual results could differ from those estimates.

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Notes to Financial Statements

June 30, 2024 and 2023

(l) Recently Adopted Accounting Standards

On July 1, 2023, the Organization adopted ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The adoption did not have a material effect on the financial statements.

On July 1, 2022, the Organization adopted ASU No. 2020-10, *Codification Improvements*. The adoption did not have a material effect on the financial statements.

(m) Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the Organization's financial statements.

(3) Cash, Cash Equivalents, and Restricted Cash

The table below provides a reconciliation of cash, cash equivalents, and restricted cash reported on the statements of financial position as of June 30 that sum to the total of those same amounts shown in the statements of cash flows (in thousands).

	2024	2023
Cash and cash equivalents	\$ 5,762	4,767
Cash included in current investments	467	294
Restricted cash included in donor-designated funds	21,590	17,639
	<u>\$ 27,819</u>	<u>22,700</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, US Treasury and agency debt securities, private equity and credit funds, 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 and credit funds' investments are accounted for using the equity method of accounting based on information provided by the respective partnerships.

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Notes to Financial Statements

June 30, 2024 and 2023

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

	2024	2023
Cash and cash equivalents	27 %	9 %
Corporate debt securities	13	25
US Treasury and agency debt securities	11	10
Domestic equity funds	33	39
Private equity and credit funds	5	4
International common stocks	11	13
	100 %	100 %

Investments and assets whose use is limited are held by and consist of designated amounts as of June 30 as follows (in thousands):

	2024		
	CHC investment pool	Held by organization	Total
Investments, current	\$ 19,628	2,537	22,165
Investments, noncurrent	3,234	—	3,234
Assets whose use is limited:			
Pledges receivable, current	—	13,395	13,395
Pledges receivable, noncurrent	—	21,934	21,934
Charitable remainder trusts	—	450	450
Donor-restricted funds	44,281	19,442	63,723
	\$ 67,143	57,758	124,901

	2023		
	CHC investment pool	Held by organization	Total
Investments, current	\$ 18,211	2,382	20,593
Investments, noncurrent	2,094	—	2,094
Assets whose use is limited:			
Pledges receivable, current	—	10,822	10,822
Pledges receivable, noncurrent	—	13,624	13,624
Charitable remainder trusts	—	447	447
Donor-restricted funds	38,857	16,449	55,306
	\$ 59,162	43,724	102,886

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Notes to Financial Statements

June 30, 2024 and 2023

Current investments held by the Organization consist of cash and cash equivalents as of June 30, 2024 and 2023. Donor-restricted funds held by the Organization consist of approximately \$19,051,000 and \$15,961,000 in cash and cash equivalents and approximately \$391,000 and \$488,000 in other receivables as of June 30, 2024 and 2023, respectively.

A summary of pledges receivable, as of June 30, is as follows (in thousands):

	2024	2023
Pledges receivable before unamortized discount	\$ 41,775	28,285
Less unamortized discount	(6,446)	(3,839)
Net pledges receivable	<u>\$ 35,329</u>	<u>24,446</u>
Amounts due in:		
Less than one year	\$ 13,395	10,822
One year to five years	24,884	15,503
Six years or more	3,496	1,960
Total	<u>\$ 41,775</u>	<u>28,285</u>

Pledges receivable are discounted at the date of receipt. Discount rates applied to pledges receivable ranged from 4.99% to 10.99% for the years ended June 30, 2024 and 2023. All pledges receivable are unconditional.

(5) Investment and Other Gains

Investment and other gains 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 (in thousands):

	2024	2023
Interest and dividend income	\$ 2,518	1,667
Net realized gains on investments	1,089	5
Net unrealized gains on investments	5,575	4,458
Total investment gains	<u>\$ 9,182</u>	<u>6,130</u>

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Notes to Financial Statements

June 30, 2024 and 2023

(6) Liquidity and Capital Resources

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 5,762	4,767
Investments, current	22,165	20,593
Assets whose use is limited, current	13,395	10,822
	<u>\$ 41,322</u>	<u>36,182</u>

The Organization has certain 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 as of June 30 is as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$ 459	459
Equipment	1,287	1,287
	1,746	1,746
Less accumulated depreciation and amortization	(1,411)	(1,303)
Property and equipment, net	<u>\$ 335</u>	<u>443</u>

For the years ended June 30, 2024 and 2023, the Organization recognized depreciation expense of approximately \$108,000 and \$153,000, respectively.

(8) Leases

The Organization has one noncancelable operating lease of a facility that expires in 2033. The Organization does not have any finance leases.

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Notes to Financial Statements
June 30, 2024 and 2023

As of June 30, lease amounts reported were as follows (in thousands):

	2024	2023
Leased facilities and equipment, net	\$ 5,086	5,558
Total operating lease ROU assets	\$ 5,086	5,558
Lease liabilities – current	\$ 491	462
Leases liabilities – noncurrent	5,100	5,589
Total lease liabilities	\$ 5,591	6,051

Other information related to leases as of June 30 is as follows (in thousands):

	2024	2023
Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	\$ 595	577
Reductions to ROU assets resulting from reductions to lease obligations:		
Operating leases	\$ (473)	(465)
Weighted average remaining lease term:		
Operating leases	9.4 years	10.4 years
Weighted average discount rate:		
Operating leases	2.25 %	2.25 %

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Notes to Financial Statements
June 30, 2024 and 2023

Maturities of lease liabilities under noncancelable leases as of June 30, 2024 are as follows (in thousands):

	Operating leases
Fiscal year:	
2025	\$ 612
2026	630
2027	649
2028	668
2029	676
Thereafter	2,986
Total undiscounted lease payments	6,221
Less imputed interest	(630)
Total lease liabilities	\$ 5,591

(9) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30 (in thousands):

	2024	2023
Subject to expenditures for specified purposes:		
Healthcare services	\$ 17,588	11,078
Pledges receivable for building and equipment	3,156	4,108
Pledges receivable, restricted as to time	29,162	14,819
Trusts receivable, restricted as to time	450	447
Investments to be held in perpetuity, the income from which is expendable to support healthcare services	49,369	46,321
Pledges receivable, to be held in perpetuity	3,011	5,519
	\$ 102,736	82,292

(10) Endowment

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 Topic 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 51 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the CHOC Foundation's board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Foundation's board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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The Foundation's 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
- 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. Undesignated endowment net assets are board-designated. Changes in endowment net assets for the years ended June 30, 2024 and 2023 (in thousands):

	Without restrictions	With restrictions	Total
Balance as of June 30, 2022	\$ 18,161	52,122	70,283
Contributions	617	5,244	5,861
Investment gain	1,323	4,013	5,336
Appropriated for expenditure	(212)	(1,696)	(1,908)
Balance as of June 30, 2023	19,889	59,683	79,572
Contributions	404	539	943
Investment gain	1,940	6,175	8,115
Appropriated for expenditure	(215)	(1,752)	(1,967)
Balance as of June 30, 2024	\$ 22,018	64,645	86,663

(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

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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 the years ended June 30, 2024 and 2023.

(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.

(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 the Organization's affiliates as the beneficiary. As of June 30, 2024 and 2023, trusts and pledges receivable held for the benefit of CHOC and CHAM totaled approximately \$30,542,000 and \$18,386,000, respectively, as a component of assets whose use is limited in the statements of financial position.

(b) Contributions to Affiliates

The Organization was formed to help support clinical and nonclinical medical education, research, and allied fields of pediatric care exclusively for the benefit of CHOC, CHAM, and its affiliates. CHOC and the Organization are considered financially interrelated organizations, and as a result, CHOC records its beneficial interest in the net assets of the Organization in accordance with ASC Topic 958. The

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Organization receives contributions on behalf of CHOC and CHAM and transfers the funds to its affiliates as specified by the donors. During the years ended June 30, 2024 and 2023, the Organization transferred contributions to affiliates of approximately \$24,289,000 and \$25,605,000, respectively. As of June 30, 2024 and 2023, the Organization had a payable to CHOC of approximately \$1,396,000 and \$1,307,000, respectively, and payable to CHAM of approximately \$12,000 and \$48,000, 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 approximately \$600,000 with CHOC during the years ended June 30, 2024 and 2023 under such agreement. As of June 30, 2024 and 2023, the Organization had a payable to CHOC of approximately \$1,396,000 and \$1,307,000, respectively. Also, the Organization has a similar agreement with CHC for certain other managerial services. The Organization incurred fees of approximately \$40,000 under this agreement with CHC during the years ended June 30, 2024 and 2023. As of June 30, 2024 and 2023, the Organization had a payable to CHC of approximately \$3,000. All of these fees are included in management, general, and institutional support; and fundraising in the accompanying statements of activities.

(d) Rental Expenses

The Organization rents office facilities from CRC, the expense for which totaled approximately \$594,000 and \$680,000 for the years ended June 30, 2024 and 2023, respectively, and is included in management, general, and institutional support and fundraising expenses in the accompanying statements of activities.

(12) Functional Expenses

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

2024				
	Program activities	Supporting activities		Total operating expenses
		Management and general support	Fundraising	
Salaries	\$ 3,518	1,394	4,858	9,770
Purchased services	647	256	894	1,797
Supplies	266	105	367	738
Rent	269	106	371	746
Depreciation	39	15	54	108
Other	565	223	780	1,568
Contributions to affiliates	24,289	—	—	24,289
	<u>\$ 29,593</u>	<u>2,099</u>	<u>7,324</u>	<u>39,016</u>

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2023				
	Program activities	Supporting activities		Total operating expenses
		Management and general support	Fundraising	
Salaries	\$ 3,290	1,376	4,259	8,925
Purchased services	707	296	915	1,918
Supplies	239	100	310	649
Rent	259	109	336	704
Depreciation	56	24	73	153
Other	279	203	836	1,318
Contributions to affiliates	25,605	—	—	25,605
	<u>\$ 30,435</u>	<u>2,108</u>	<u>6,729</u>	<u>39,272</u>

Program activities include contributions to affiliates. Supporting activities indirectly support program activities. Expenses are identified as affiliate support or management, general, and institutional support using a specific-identification method.

For the years ended June 30, 2024 and 2023, the Organization recorded a provision for uncollectible pledges in fundraising expenses of approximately \$274,000 and \$207,000, respectively.

(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 statements of financial position date through September 23, 2024, the date on which the financial statements were available to be issued.