



CHOC FOUNDATION

Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

CHOC FOUNDATION

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KPMG LLP
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Irvine, CA 92618-3391

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, 2021 and 2020, 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, 2021 and 2020, 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 16, 2021

CHOC FOUNDATION
Statements of Financial Position
June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents (note 3)	\$ 3,141,195	3,720,058
Pooled investments (note 4)	561,229	396,494
Assets whose use is limited, current (note 4)	8,397,256	9,340,695
Prepays and other current assets	<u>688,066</u>	<u>610,230</u>
Total current assets	<u>12,787,746</u>	<u>14,067,477</u>
Assets whose use is limited (notes 3 and 4):		
Board-designated investments	22,472,696	18,040,359
Long-term pledges receivable, net of current portion	10,006,866	15,132,910
Charitable remainder trusts	516,053	587,114
Donor-designated funds	<u>58,589,968</u>	<u>42,492,954</u>
Total assets whose use is limited	91,585,583	76,253,337
Other assets:		
Property and equipment, net (note 7)	749,511	902,641
Operating lease right-of-use assets (note 8)	<u>5,751,793</u>	<u>—</u>
Total assets	<u>\$ 110,874,633</u>	<u>91,223,455</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,691,348	1,618,110
Payable to related parties (note 12)	1,407,067	1,359,893
Current portion of operating lease liabilities (note 8)	<u>467,507</u>	<u>—</u>
Total current liabilities	3,565,922	2,978,003
Operating lease liabilities (note 8)	<u>5,654,982</u>	<u>—</u>
Total liabilities	<u>9,220,904</u>	<u>2,978,003</u>
Net assets:		
Without donor restrictions:		
Undesignated	1,670,890	2,651,419
Board-designated (note 9)	<u>22,472,696</u>	<u>18,040,359</u>
Total without donor restrictions	24,143,586	20,691,778
With donor restrictions (note 10)	<u>77,510,143</u>	<u>67,553,674</u>
Total net assets	<u>101,653,729</u>	<u>88,245,452</u>
Total liabilities and net assets	<u>\$ 110,874,633</u>	<u>91,223,455</u>

See accompanying notes to financial statements.

CHOC FOUNDATION

Statement of Activities

Year ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Public support and revenue:			
Public support	\$ 14,345,689	19,832,472	34,178,161
Special events	3,596,089	—	3,596,089
Less costs of direct benefits to donors	(1,018,537)	—	(1,018,537)
Net special events revenue	2,577,552	—	2,577,552
Net public support and special events	16,923,241	19,832,472	36,755,713
Net assets released from restrictions	16,277,578	(16,277,578)	—
Investment and other income (note 5)	3,334,014	6,472,636	9,806,650
Change in value of split-interest agreements	—	(71,061)	(71,061)
Total public support and revenue	36,534,833	9,956,469	46,491,302
Expenses:			
Contributions to affiliates	21,394,170	—	21,394,170
Management, general, and institutional support	4,594,802	—	4,594,802
Fundraising expenses	7,094,053	—	7,094,053
Total expenses	33,083,025	—	33,083,025
Increase in net assets	3,451,808	9,956,469	13,408,277
Net assets at beginning of year	20,691,778	67,553,674	88,245,452
Net assets at end of year	\$ 24,143,586	77,510,143	101,653,729

See accompanying notes to financial statements.

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Statement of Activities

Year ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
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.

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Statements of Cash Flows

Years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Increase in net assets	\$ 13,408,277	13,988,587
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains on investments, net	(7,195,554)	(361,136)
Change in value of split-interest agreements	71,061	(194,327)
Depreciation	153,130	152,652
Amortization of operating lease right-of-use assets	518,322	—
Decrease (increase) in operating assets:		
Prepays and other current assets	(77,836)	(124,531)
Trusts and other receivables	(5,022,125)	362,071
Pledges receivable	6,069,483	(9,109,244)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	331,341	(11,275)
Payable to related parties	47,174	(641,420)
Operating lease liabilities	(405,731)	—
Net cash provided by operating activities	7,897,542	4,061,377
Cash flows from investing activities:		
Pooled investments	(3,129,468)	(1,243,297)
Purchase of property and equipment	—	(31,039)
Net cash used in investing activity	(3,129,468)	(1,274,336)
Net increase in cash and cash equivalents (note 3)	4,768,074	2,787,041
Cash, cash equivalents, and restricted cash at beginning of year	21,025,525	18,238,484
Cash, cash equivalents, and restricted cash at end of year	\$ 25,793,599	21,025,525
Supplemental disclosure of cash flow information:		
Change in capital expenditures accrued but not yet paid	\$ —	21,485

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2021 and 2020

(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).

(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 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.

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.

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Notes to Financial Statements

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(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 as public support in the accompanying statement 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.

(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

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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 year ended June 30, 2021 or 2020.

(i) **Leases**

The Organization accounts for leases in accordance with 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).

ROU assets for operating and finance leases are periodically reduced by impairment losses. The Organization uses the long-lived assets impairment guidance in Accounting Standards Codification (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

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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 non-current 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, 2021, 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 2016.

(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 carrying amount of property and equipment, trusts, bequests, and pledges receivable. Actual results could differ from those estimates.

(l) Recently Adopted Accounting Standards

In February 2016, the FASB issued Accounting Standards Update ASU No. 2016-02, *Leases (Topic 842)*, which expands the qualitative and quantitative disclosure requirements around leasing transactions while also requiring lessees to recognize assets and liabilities for the rights and obligations created by leases on the Organization's statement of financial position for both finance and operating leases. The Organization has completed an evaluation of the requirements of the new standard to

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June 30, 2021 and 2020

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.

(m) COVID-19 Pandemic

In December 2019, a strain of coronavirus (COVID 19) was identified and has spread around the world. On March 13, 2020, a national public health emergency was declared in the United States with respect to COVID 19. As a result, the Organization was unable to conduct normal fundraising activities in the year ended June 30, 2021 including live events, hospital tours and in-person donor cultivation. The Organization continues to assess when it will be safe to resume such activities.

(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 that sum to the total of those same amounts shown in the statements of cash flows.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,141,195	3,720,058
Restricted cash included in board-designated investments	47,130	105,484
Restricted cash included in donor-designated funds	<u>22,605,274</u>	<u>17,199,983</u>
	<u>\$ 25,793,599</u>	<u>21,025,525</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 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, 2021 and 2020

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, 2021 and 2020 was invested as follows (in percentages):

	2021	2020
Cash and cash equivalents	14 %	15 %
Corporate debt securities	21	23
U.S. Treasury and agency debt securities	14	14
Domestic equity funds	34	32
Private equity and credit funds	1	—
International common stocks	16	16
	100 %	100 %

Investments and assets whose use is limited are held by and consist of designated amounts at June 30, 2021 and 2020 as follows:

	2021		
	CHC investment pool	Held by organization	Total
Pooled investments	\$ 561,229	—	561,229
Assets whose use is limited:			
Board-designated investments	20,915,492	1,557,204	22,472,696
Pledges receivable – current	—	8,397,256	8,397,256
Pledges receivable – noncurrent	—	10,006,866	10,006,866
Charitable remainder trusts	—	516,053	516,053
Donor-restricted funds	31,635,547	26,954,421	58,589,968
	\$ 53,112,268	47,431,800	100,544,068

	2020		
	CHC investment pool	Held by organization	Total
Pooled investments	\$ 396,494	—	396,494
Assets whose use is limited:			
Board-designated investments	17,222,031	818,328	18,040,359
Pledges receivable – current	—	9,340,695	9,340,695
Pledges receivable – noncurrent	—	15,132,910	15,132,910
Charitable remainder trusts	—	587,114	587,114
Donor-restricted funds	25,788,304	16,704,650	42,492,954
	\$ 43,406,829	42,583,697	85,990,526

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Notes to Financial Statements

June 30, 2021 and 2020

Donor-restricted funds held by the Organization consist of \$21,663,421 and \$16,381,655 in cash and cash equivalents and \$5,291,000 and \$322,995 in receivables as of June 30, 2021 and 2020, respectively.

A summary of pledges receivable, as of June 30, is as follows:

	2021	2020
Pledges receivable before unamortized discount	\$ 20,964,672	28,248,691
Less unamortized discount	(2,560,550)	(3,775,086)
Net pledges receivable	\$ 18,404,122	24,473,605
Amounts due in:		
Less than one year	\$ 8,397,256	9,340,695
One year to five years	11,047,607	6,701,776
Six years or more	1,519,809	12,206,220
Total	\$ 20,964,672	28,248,691

Pledges receivable are discounted at the date of receipt. Discount rates applied to pledges receivable ranged from 4.63% to 9.25% for the years ended June 30, 2021 and 2020.

(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, 2021 and 2020:

	2021	2020
Interest and dividend income	\$ 2,611,096	1,522,319
Net realized gain (loss) on investments	(15,718)	30,408
Net unrealized gain on investments	7,211,272	330,728
Total investment income	\$ 9,806,650	1,883,455

(6) Liquidity and Capital Resources

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

	2021	2020
Cash and cash equivalents	\$ 3,141,195	3,720,058
Pooled investments	561,229	396,494
Assets whose use is limited, board-designated funds	22,472,696	18,040,359
	\$ 26,175,120	22,156,911

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Notes to Financial Statements

June 30, 2021 and 2020

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 as of June 30, 2021 and 2020 is as follows:

	2021	2020
Equipment	\$ 501,241	501,241
Leasehold improvements	1,245,355	1,245,355
	1,746,596	1,746,596
Less accumulated depreciation and amortization	(997,085)	(843,955)
Property and equipment, net	\$ 749,511	902,641

For the fiscal years ended June 30, 2021 and 2020, the Organization recognized depreciation expense of \$153,130 and \$152,652, 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.

As of July 1, 2020, the Organization adopted ASU No. 2016-02. Upon adoption, the Organization has recorded leased operating assets of facilities and equipment and associated lease liabilities on the statement of financial position.

As of June 30, 2021, lease amounts reported were as follows:

Leased facilities and equipment, net	\$ 5,751,793
Total operating lease ROU assets	5,751,793
Lease liabilities – current	\$ 467,507
Leases liabilities – noncurrent	5,654,982
Total lease liabilities	\$ 6,122,489

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Notes to Financial Statements

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Other information related to leases as of June 30, 2021 is as follows:

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flow from operating leases	\$ 541,667
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ROU assets obtained in exchange for lease obligations:

Operating leases	\$ 6,270,115
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Reductions to ROU assets resulting from reductions to lease obligations:

Operating leases	\$ (518,322)
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Weighted average remaining lease term:

Operating leases	12.4 years
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Weighted average discount rate:

Operating leases	3.01 %
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Maturities of lease liabilities under noncancelable leases as of June 30, 2021 are as follows:

	Operating leases
Fiscal year:	
2022	\$ 467,507
2023	510,126
2024	509,869
2025	509,612
2026	509,356
Thereafter	3,616,019
Total lease liabilities	\$ 6,122,489

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Future minimum lease payments under noncancelable operating leases for the Organization are as follows (in thousands):

	Operating leases
Fiscal year:	
2022	\$ 512,111
2023	576,070
2024	593,352
2025	611,153
2026	629,487
Thereafter	4,978,010
	\$ 7,900,183

(9) Board-Designated Net Assets

For the fiscal years ended June 30, 2021 and 2020, the Organization had board-designated net assets available for medical program costs of \$4,309,848 and \$4,251,866, respectively. The Organization also had available \$18,162,848 and \$13,788,493 as of June 30, 2021 and 2020, respectively, for general activities.

(10) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2021 and 2020:

	2021	2020
Subject to expenditures for specified purposes:		
Healthcare services	\$ 20,041,371	9,632,905
Pledges receivable for building and equipment	47,134	736,389
Pledges receivable, restricted as to time	12,358,389	16,097,030
Trusts receivable, restricted as to time	516,053	587,114
Investments to be held in perpetuity, the income from which is expendable to support healthcare services	38,548,598	32,583,885
Endowments requiring income to be added to original gift	—	276,165
Pledges receivable, to be held in perpetuity	5,998,598	7,640,186
	\$ 77,510,143	67,553,674

(11) 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 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

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41 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.

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. Donor-restricted endowment funds include gifts totaling \$0 and \$276,165 as of June 30, 2021 and 2020, respectively, which require income to be

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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, 2021 and 2020:

	<u>Undesignated endowments</u>	<u>Donor-restricted endowments</u>	<u>Total</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	—	(906,433)	(906,433)
Balance as of June 30, 2020	18,040,359	46,966,465	65,006,824
Contributions	1,358,086	4,046,960	5,405,046
Investment income	3,250,697	6,411,972	9,662,669
Appropriated for expenditure	(176,446)	(1,037,563)	(1,214,009)
Balance as of June 30, 2021	<u>\$ 22,472,696</u>	<u>56,387,834</u>	<u>78,860,530</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 2021 or 2020.

(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.

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(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.

(12) 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, 2021 and 2020, trusts and pledges receivable held for the benefit of CHOC and CHAM totaled \$11,901,453 and \$16,366,018, 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 CHAM and transfers the funds to its affiliates as specified by the donors. During the years ended June 30, 2021 and 2020, the Organization transferred contributions to affiliates of \$21,394,170 and \$25,344,086, respectively. At June 30, 2021 and 2020, the Organization had a payable to CHOC of \$1,316,105 and \$1,254,899, respectively, and payable to CHAM of \$37,629 and \$51,661, 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 2021 and 2020 under such agreement. At June 30, 2021 and 2020, 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 2021 and 2020. At June 30, 2021 and 2020, 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.

(d) Rental Expenses

The Organization rents office facilities from CRC, the expense for which totaled \$659,711 and \$645,377 for the years ended 2021 and 2020, respectively, and is included in management, general, and institutional support and fundraising expenses in the accompanying statements of activities.

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(13) Functional Expenses

The Organization supports CHOC, CHAM, and its affiliates in providing healthcare services to residents within its geographic location. Operating expenses at June 30, 2021 and 2020 are presented by their functional classifications as follows for the years ended June 30:

2021				
	Program activities	Supporting activities		Total operating expenses
	Affiliate support	Management, general, and institutional support	Fundraising	
Salaries	\$ —	3,306,456	5,106,917	8,413,373
Purchased services	—	557,674	861,344	1,419,018
Supplies	—	158,874	245,381	404,255
Rent	—	273,977	423,166	697,143
Depreciation	—	60,180	92,950	153,130
Other	—	237,641	364,295	601,936
Contributions to affiliates	21,394,170	—	—	21,394,170
	<u>\$ 21,394,170</u>	<u>4,594,802</u>	<u>7,094,053</u>	<u>33,083,025</u>
2020				
	Program activities	Supporting activities		Total operating expenses
	Affiliate support	Management, general, and institutional support	Fundraising	
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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(14) 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.

(15) Subsequent Events

The Organization has evaluated subsequent events from the statements of financial position date through September 16, 2021, the date on which the financial statements were available to be issued.