CHOC FOUNDATION

Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

CHOC FOUNDATION

Table of Contents

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

Independent Auditors' Report

The Board of Directors
CHOC Foundation:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CHOC Foundation (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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, 2023 and 2022, 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 21, 2023

CHOC FOUNDATION

Statements of Financial Position

June 30, 2023 and 2022

(In thousands)

Assets		2023	2022
Current assets:			
Cash and cash equivalents (note 3)	$	4,767	4,889
Pooled investments, current (note 4)		704	469
Assets whose use is limited, current (note 4)		10,822	10,515
Prepaids and other current assets		731	942
Total current assets		17,024	16,815
Assets whose use is limited (notes 3 and 4):			
Board-designated investments		19,889	18,161
Long-term pledges receivable, net of current portion		13,624	16,479
Charitable remainder trusts		447	537
Donor-designated funds		55,306	49,930
Total assets whose use is limited		89,266	85,107
Pooled investments, noncurrent (note 4)		2,094	1,219
Other assets:			
Property and equipment, net (note 7)		443	596
Operating lease right-of-use assets (note 8)		5,558	6,023
Total assets	$	114,385	109,760
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	1,867	1,214
Payable to related parties (note 12)		1,358	3,846
Operating lease liabilities, current (note 8)		462	434
Total current liabilities		3,687	5,494
Operating lease liabilities (note 8)		5,589	6,051
Total liabilities		9,276	11,545
Net assets:			
Without donor restrictions:			
Undesignated		2,928	1,374
Board-designated (note 9)		19,889	18,161
Total without donor restrictions		22,817	19,535
With donor restrictions (note 10)		82,292	78,680
Total net assets		105,109	98,215
Total liabilities and net assets	$	114,385	109,760

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 13):				
Contributions to affiliates		25,605	—	25,605
Management, general, and institutional support		6,938	—	6,938
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

Statement of Activities

Year ended June 30, 2022

(In thousands)

		Without donor restrictions	With donor restrictions	Total
Public support and revenue:				
Public support	$	8,318	29,895	38,213
Special events		7,942	—	7,942
Less costs of direct benefits to donors		(3,461)	—	(3,461)
Net special events revenue		4,481	—	4,481
Net public support and special events		12,799	29,895	42,694
Net assets released from restrictions		24,353	(24,353)	—
Investment and other losses (note 5)		(1,704)	(4,258)	(5,962)
Change in value of split-interest agreements		—	21	21
Total public support and revenue		35,448	1,305	36,753
Expenses (note 13):				
Contributions to affiliates		27,636	—	27,636
Management, general, and institutional support		4,939	—	4,939
Fundraising expenses		7,482	135	7,617
Total expenses		40,057	135	40,192
Changes in net assets		(4,609)	1,170	(3,439)
Net assets at beginning of year		24,144	77,510	101,654
Net assets at end of year	$	19,535	78,680	98,215

See accompanying notes to financial statements.

CHOC FOUNDATION

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Cash flows from operating activities:			
Changes in net assets	$	6,894	(3,439)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Realized and unrealized (gains) losses on investments, net		(4,463)	8,016
Change in value of split-interest agreements		90	(21)
Depreciation		153	153
Reduction of operating lease right-of-use assets		465	456
Changes in operating assets:			
Prepaids and other current assets		211	(253)
Other receivables		(488)	5,345
Pledges receivable		2,549	(8,590)
Changes in operating liabilities:			
Accounts payable and accrued liabilities		653	(477)
Payable to related parties		(2,488)	2,439
Operating lease liabilities		(434)	(365)
Net cash provided by operating activities		3,142	3,264
Cash flows from investing activity:			
Pooled investments		(2,167)	(7,333)
Net cash used in investing activity		(2,167)	(7,333)
Net change in cash and cash equivalents		975	(4,069)
Cash, cash equivalents, and restricted cash at beginning of year		21,725	25,794
Cash, cash equivalents, and restricted cash at end of year (note 3)	$	22,700	21,725

See accompanying notes to financial statements.

(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 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.

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 year ended June 30, 2023 and 2022, respectively.

(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 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.

(Continued)

(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, 2023 and 2022.

(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).

ROU assets for operating and finance leases are periodically reduced by 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, 2023 and 2022, 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 2019.

(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.

(l) Recently Adopted Accounting Standards

On July 1, 2021, the Organization adopted Accounting Standards Update (ASU) No. 2020-07, Not-for-profit Entities (*Topic 958*): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure to address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. The adoption did not have a material effect on the consolidated 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).

	2023	2022
Cash and cash equivalents	$ 4,767	4,889
Cash included in board-designated investments	294	1,244
Restricted cash included in donor-designated funds	17,639	15,592
	$ 22,700	21,725

(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.

(Continued)

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):

	2023	2022
Cash and cash equivalents	9 %	11 %
Corporate debt securities	25	25
US Treasury and agency debt securities	10	15
Domestic equity funds	39	40
Private equity and credit funds	4	2
International common stocks	13	7
	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):

	2023		
	CHC investment pool	Held by organization	Total
Pooled investments, current	$ 704	—	704
Pooled investments, noncurrent	2,094	—	2,094
Assets whose use is limited:			
Board-designated investments	17,507	2,382	19,889
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

	2022		
	CHC investment pool	**Held by organization**	**Total**
Pooled investments, current	$ 469	—	469
Pooled investments, noncurrent	1,219	—	1,219
Assets whose use is limited:			
Board-designated investments	16,161	2,000	18,161
Pledges receivable, current	—	10,515	10,515
Pledges receivable, noncurrent	—	16,479	16,479
Charitable remainder trusts	—	537	537
Donor-restricted funds	35,870	14,060	49,930
	$ 53,719	43,591	97,310

Board-designated investments held by the organization consist of cash and cash equivalents as of June 30, 2023 and 2022. Donor-restricted funds held by the Organization consist of approximately $15,961,000 and $14,060,000 in cash and cash equivalents and approximately $488,000 and $0 in other receivables as of June 30, 2023 and 2022, respectively.

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

	2023	2022
Pledges receivable before unamortized discount	$ 28,285	31,285
Less unamortized discount	(3,839)	(4,291)
Net pledges receivable	$ 24,446	26,994
Amounts due in:		
Less than one year	$ 10,822	10,515
One year to five years	15,503	18,651
Six years or more	1,960	2,119
Total	$ 28,285	31,285

Pledges receivable are discounted at the date of receipt. Discount rates applied to pledges receivable ranged from 4.99% to 9.99% for the years ended June 30, 2023 and 2022.

(Continued)

(5) Investment and Other Gains (Losses)

Investment and other gains (losses) 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):

		2023	2022
Interest and dividend income	$	1,667	2,054
Net realized gain on investments		5	856
Net unrealized gain (loss) on investments		4,458	(8,872)
Total investment gains (losses)	$	6,130	(5,962)

(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):

		2023	2022
Cash and cash equivalents	$	4,767	4,889
Pooled investments, current		704	469
Assets whose use is limited, current		10,822	10,515
	$	16,293	15,873

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 is as follows (in thousands):

		2023	2022
Equipment	$	459	459
Leasehold improvements		1,287	1,287
		1,746	1,746
Less accumulated depreciation and amortization		(1,303)	(1,150)
Property and equipment, net	$	443	596

For the years ended June 30, 2023 and 2022, the Organization recognized depreciation expense of approximately $153,000.

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

		2023	2022
Leased facilities and equipment, net	$	5,558	6,023
Total operating lease ROU assets	$	5,558	6,023
Lease liabilities – current	$	462	434
Leases liabilities – noncurrent		5,589	6,051
Total lease liabilities	$	6,051	6,485

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

		2023	2022
Supplemental cash flow information:			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flow from operating leases	$	577	513
Reductions to ROU assets resulting from reductions to lease obligations:			
Operating leases	$	(465)	(456)
Weighted average remaining lease term:			
Operating leases		10.4 years	11.4 years
Weighted average discount rate:			
Operating leases		2.25 %	2.25 %

Maturities of lease liabilities under noncancelable leases as of June 30, 2023 are as follows (in thousands):

		Operating leases
Fiscal year:		
2024	$	593
2025		611
2026		630
2027		648
2028		668
Thereafter		3,662
Total undiscounted lease payments		6,812
Less imputed interest		(761)
Total lease liabilities	$	6,051

(9) Board-Designated Net Assets

For the years ended June 30, 2023 and 2022, the Organization had board-designated net assets available for medical program costs of approximately $4,310,000. The Organization also had available approximately $15,579,000 and $13,851,000 as of June 30, 2023 and 2022, respectively, for general activities.

(10) Net Assets with Donor Restrictions

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

		2023	2022
Subject to expenditures for specified purposes:			
Healthcare services	$	11,078	9,273
Pledges receivable for building and equipment		4,108	867
Pledges receivable, restricted as to time		14,819	21,407
Trusts receivable, restricted as to time		447	537
Investments to be held in perpetuity, the income from which is expendable to support healthcare services		46,321	41,876
Pledges receivable, to be held in perpetuity		5,519	4,720
	$	82,292	78,680

(11) 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 48 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. Undesignated endowment net assets are board-designated. Changes in endowment net assets for the years ended June 30, 2023 and 2022 (in thousands):

		Board-designated endowments	Donor-restricted endowments	Total
Balance as of June 30, 2021	$	22,473	56,388	78,861
Contributions		698	—	698
Investment loss		(4,729)	(4,187)	(8,916)
Appropriated for expenditure		(281)	(2,128)	(2,409)
Balance as of June 30, 2022		18,161	50,073	68,234
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	57,634	77,523

(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 the years ended June 30, 2023 and 2022.

(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.

(12) 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, 2023 and 2022, trusts and pledges receivable held for the benefit of CHOC and CHAM totaled approximately $18,386,000 and $21,851,000, 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 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, 2023 and 2022, the Organization transferred contributions to affiliates of approximately $25,605,000 and $27,636,000, respectively. As of June 30, 2023 and 2022, the Organization had a payable to CHOC of approximately $1,307,000 and $3,827,000, respectively, and payable to CHAM of approximately $48,000 and $16,000, 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, 2023 and 2022 under such agreement. As of June 30, 2023 and 2022, the Organization had a payable to CHOC of approximately $1,307,000 and $3,827,000, 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, 2023 and 2022. As of June 30, 2023 and 2022, the Organization had a

(Continued)

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 $680,000 and $622,000 for the years ended June 30, 2023 and 2022, respectively, and is included in management, general, and institutional support and fundraising expenses in the accompanying statements of activities.

(13) 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):

	2023			
	Program activities	Supporting activities		
	Affiliate support	Management, general, and institutional support	Fundraising	Total operating expenses
Salaries	$ —	4,666	4,259	8,925
Purchased services	—	1,003	915	1,918
Supplies	—	339	310	649
Rent	—	368	336	704
Depreciation	—	80	73	153
Other	—	482	836	1,318
Contributions to affiliates	25,605	—	—	25,605
	$ 25,605	6,938	6,729	39,272

	2022			
	Program activities	Supporting activities		
	Affiliate support	Management, general, and institutional support	Fundraising	Total operating expenses
Salaries	$ —	3,542	5,222	8,764
Purchased services	—	643	949	1,592
Supplies	—	183	269	452
Rent	—	277	409	686
Depreciation	—	62	91	153
Other	—	232	677	909
Contributions to affiliates	27,636	—	—	27,636
	$ 27,636	4,939	7,617	40,192

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, 2023 and 2022, the Organization recorded a provision for uncollectible pledges in fundraising expenses of approximately $207,000 and $135,000, respectively.

(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 21, 2023, the date on which the financial statements were available to be issued.