



CHOC FOUNDATION

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

CHOC FOUNDATION

Table of Contents

	Page(s)
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Cash Flows	5
Notes to Financial Statements	6-15



KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Directors
CHOC Foundation:

We have audited the accompanying financial statements of CHOC Foundation, which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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

Los Angeles, California
October 1, 2015

CHOC FOUNDATION
Statements of Financial Position
June 30, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 4,235,086	3,128,659
Pooled investments (note 3)	1,842,407	2,571,698
Assets whose use is limited, current (note 3)	3,198,218	4,412,156
Prepays and other current assets	296,855	374,868
Total current assets	<u>9,572,566</u>	<u>10,487,381</u>
Assets whose use is limited (note 3):		
Board-designated investments	12,186,927	11,132,146
Long-term pledges receivable, net of current portion	27,805,683	26,961,148
Charitable remainder trusts	555,628	976,561
Donor-designated funds	26,697,958	23,421,925
Total assets whose use is limited	<u>67,246,196</u>	<u>62,491,780</u>
Other assets:		
Property and equipment, net (note 5)	340,803	433,782
Total assets	<u>\$ 77,159,565</u>	<u>73,412,943</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 876,797	562,895
Payable to related parties (note 8)	1,048,983	384,918
Total liabilities	<u>1,925,780</u>	<u>947,813</u>
Net assets:		
Unrestricted:		
Undesignated	4,789,371	5,561,195
Board-designated	12,186,927	11,132,146
Total unrestricted net assets	<u>16,976,298</u>	<u>16,693,341</u>
Temporarily restricted (note 6)	41,237,806	39,042,151
Permanently restricted (notes 6 and 7)	17,019,681	16,729,638
Total net assets	<u>75,233,785</u>	<u>72,465,130</u>
Total liabilities and net assets	<u>\$ 77,159,565</u>	<u>73,412,943</u>

See accompanying notes to financial statements.

CHOC FOUNDATION

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Public support and revenues:				
Public support	\$ 3,484,531	16,978,384	277,929	20,740,844
Special events	6,962,819	—	—	6,962,819
Less costs of direct benefits to donors	(2,681,317)	—	—	(2,681,317)
Net special events revenues	4,281,502	—	—	4,281,502
Net public support and special events	7,766,033	16,978,384	277,929	25,022,346
Net assets released from restrictions	14,888,839	(14,888,839)	—	—
Investment and other income (note 4)	385,555	571,043	12,114	968,712
Change in value of split-interest agreements	—	(420,933)	—	(420,933)
Total public support and revenues	<u>23,040,427</u>	<u>2,239,655</u>	<u>290,043</u>	<u>25,570,125</u>
Expenses:				
Contributions to affiliates	16,491,367	—	—	16,491,367
Program services	211,289	—	—	211,289
Management and general	2,615,157	—	—	2,615,157
Fund-raising expenses	3,439,657	—	—	3,439,657
Provision for uncollectible pledges	—	44,000	—	44,000
Total expenses	<u>22,757,470</u>	<u>44,000</u>	<u>—</u>	<u>22,801,470</u>
Increase in net assets	282,957	2,195,655	290,043	2,768,655
Net assets at beginning of year	<u>16,693,341</u>	<u>39,042,151</u>	<u>16,729,638</u>	<u>72,465,130</u>
Net assets at end of year	<u>\$ 16,976,298</u>	<u>41,237,806</u>	<u>17,019,681</u>	<u>75,233,785</u>

See accompanying notes to financial statements.

CHOC FOUNDATION

Statement of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Public support and revenues:				
Public support	\$ 4,100,779	19,948,414	1,352,817	25,402,010
Special events	6,391,223	—	—	6,391,223
Less costs of direct benefits to donors	<u>(2,164,938)</u>	<u>—</u>	<u>—</u>	<u>(2,164,938)</u>
Net special events revenues	<u>4,226,285</u>	<u>—</u>	<u>—</u>	<u>4,226,285</u>
Net public support and special events	8,327,064	19,948,414	1,352,817	29,628,295
Net assets released from restrictions	15,348,926	(15,348,926)	—	—
Investment and other income (note 4)	1,502,348	2,595,927	24,346	4,122,621
Change in value of split-interest agreements	<u>—</u>	<u>(127,364)</u>	<u>—</u>	<u>(127,364)</u>
Total public support and revenues	<u>25,178,338</u>	<u>7,068,051</u>	<u>1,377,163</u>	<u>33,623,552</u>
Expenses:				
Contributions to affiliates	15,289,631	—	—	15,289,631
Program services	250,036	—	—	250,036
Management and general	2,648,124	—	—	2,648,124
Fund-raising expenses	3,417,730	—	—	3,417,730
Provision for uncollectible pledges	<u>—</u>	<u>34,993</u>	<u>—</u>	<u>34,993</u>
Total expenses	<u>21,605,521</u>	<u>34,993</u>	<u>—</u>	<u>21,640,514</u>
Increase in net assets	3,572,817	7,033,058	1,377,163	11,983,038
Net assets at beginning of year	<u>13,120,524</u>	<u>32,009,093</u>	<u>15,352,475</u>	<u>60,482,092</u>
Net assets at end of year	<u>\$ 16,693,341</u>	<u>39,042,151</u>	<u>16,729,638</u>	<u>72,465,130</u>

See accompanying notes to financial statements.

CHOC FOUNDATION

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 2,768,655	11,983,038
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains on investments, net	(365,220)	(3,493,469)
Change in value of split-interest agreements	420,933	127,364
Depreciation	92,979	27,063
Decrease (increase) in operating assets:		
Pooled investments	(550,105)	(562,697)
Assets whose use is limited	(1,568,414)	(1,352,996)
Prepays and other current assets	78,013	(253,668)
Trusts and other receivables	(1,117,784)	(1,484,450)
Pledges receivable	369,403	(2,933,410)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	313,902	138,580
Payable to related parties	664,065	(748,532)
Net cash provided by operating activities	1,106,427	1,446,823
Cash flows from investing activity:		
Purchase of property and equipment	—	(74,021)
Net cash used in investing activity	—	(74,021)
Net increase in cash and cash equivalents	1,106,427	1,372,802
Cash and cash equivalents at beginning of year	3,128,659	1,755,857
Cash and cash equivalents at end of year	\$ 4,235,086	3,128,659

See accompanying notes to financial statements.

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(1) Organization and Purpose

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

Children's HealthCare of California (CHC) is the sole member of the Organization. Other affiliates of CHC include CHOC, CCMH, 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 Equivalents

For purposes of the statements of financial position and cash flows, 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, excluding amounts whose use is limited by board or donor designation or other arrangements under trust agreements.

(c) Investments

Investments consist of fixed income securities, U.S. government and agency issues, mutual funds, exchange-traded funds, and equity securities held by CHC 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. The Organization uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by the Organization is the net asset value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. Management reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

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.

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

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.

(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 are maintained in the pooled investment portfolio.

(e) *Temporarily and Permanently Restricted Net Assets*

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

(f) *Contributions*

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value when all the conditions are met. The gifts are reported as either temporarily or permanently restricted support 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(g) *Property and Equipment*

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

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

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

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(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 deemed to exist as of June 30, 2015.

(i) *Income Taxes*

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

U.S. generally accepted accounting principles (GAAP) require 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, 2015, 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 2012.

(j) *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues 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.

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(3) 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 invests in fixed income securities, U.S. government and agency issues, mutual funds, and equity securities 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.

Pooled investments are recorded at the Organization's share of the carrying value of the CHC investment pool. The CHC investment pool at June 30, 2015 and 2014 was invested as follows (in percentages):

	2015	2014
Cash and cash equivalents	13%	20%
Money market funds	8	7
Fixed income mutual funds	12	10
Domestic exchange-traded funds	8	8
Foreign exchange-traded funds	3	4
Common stocks	32	33
Preferred stocks	2	1
U.S. Treasury debt securities	1	5
U.S. government corporations and agency debt securities	3	3
Corporate debt securities	14	5
Federal agency mortgage-backed securities	4	4
	100%	100%

Investments and assets whose use is limited are held by and consist of designated amounts at June 30, 2015 and 2014 as follows:

	2015		
	CHC investment pool	Held by Organization	Total
Pooled investments	\$ 1,842,407	—	1,842,407
Assets whose use is limited:			
Board-designated investments	12,186,927	—	12,186,927
Pledges receivable – current	—	3,198,218	3,198,218
Pledges receivable – long term	—	27,805,683	27,805,683
Charitable remainder trusts	—	555,628	555,628
Donor-restricted funds	17,340,735	9,357,223	26,697,958
	\$ 31,370,069	40,916,752	72,286,821

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

	2014		
	CHC investment pool	Held by Organization	Total
Pooled investments	\$ 2,571,698	—	2,571,698
Assets whose use is limited:			
Board-designated investments	11,132,146	—	11,132,146
Pledges receivable – current	—	4,412,156	4,412,156
Pledges receivable – long term	—	26,961,148	26,961,148
Charitable remainder trusts	—	976,561	976,561
Donor-restricted funds	16,750,898	6,671,027	23,421,925
	<u>\$ 30,454,742</u>	<u>39,020,892</u>	<u>69,475,634</u>

The board-designated investments held by the Organization and the donor-restricted funds held by the Organization consist of cash and cash equivalents.

A summary of pledges receivable at June 30, 2015 and 2014 is as follows:

	2015	2014
Pledges receivable before unamortized discount and allowance for uncollectibles	\$ 36,738,937	38,239,840
Less allowance for uncollectibles	(54,960)	(54,960)
Subtotal	36,683,977	38,184,880
Less unamortized discount	(5,680,076)	(6,811,576)
Net pledges receivable	<u>\$ 31,003,901</u>	<u>31,373,304</u>
Amounts due in:		
Less than one year	\$ 3,198,218	4,412,156
One year to five years	31,718,288	30,802,111
More than five years	1,767,471	2,970,613
Total	<u>\$ 36,683,977</u>	<u>38,184,880</u>

Pledges receivable are discounted at the date of receipt. Discount rates applied to pledges receivable ranged from 4.5% to 9.0% for the fiscal years ended June 30, 2015 and 2014.

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(4) Investment and Other Income

Investment and other income for cash and cash equivalents, pooled investments, and assets whose use is limited, included in unrestricted interest and other income in the statements of activities, comprise the following for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 603,492	629,152
Net realized gain on investments	1,308,913	691,925
Net unrealized gain (loss) on investments	<u>(943,693)</u>	<u>2,801,544</u>
Total investment income	<u>\$ 968,712</u>	<u>4,122,621</u>

(5) Property and Equipment

A summary of property and equipment at June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 539,592	539,592
Leasehold improvements	<u>227,280</u>	<u>227,280</u>
	766,872	766,872
Less accumulated depreciation and amortization	<u>(426,069)</u>	<u>(333,090)</u>
Property and equipment, net	<u>\$ 340,803</u>	<u>433,782</u>

(6) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Building and equipment	\$ 6,411,163	4,393,238
Healthcare services	16,145,178	13,972,065
Pledge receivable, restricted as to time	18,125,837	19,700,287
Trusts receivable, restricted as to time	<u>555,628</u>	<u>976,561</u>
	<u>\$ 41,237,806</u>	<u>39,042,151</u>

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

Permanently restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	2015	2014
Investments to be held in perpetuity, the income from which is expendable to support healthcare services	\$ 16,442,281	16,113,531
Endowments requiring income to be added to original gift	381,752	369,638
Permanently restricted pledges receivable	195,648	246,469
	\$ 17,019,681	16,729,638

(7) Endowment

Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, provides guidance relating to the treatment of permanently restricted net assets to be consistent with the Uniform Prudent Management of Institution Funds Act of 2006 (UPMIFA) legislation. ASC 958 also provides guidance relating to disclosure about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds). The Organization’s endowment consists of approximately 38 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Foundation Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Foundation Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (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 not classified in permanently restricted net assets is classified as temporarily restricted net assets 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

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

Permanently restricted endowment net assets of \$17,019,681 and \$16,729,638 as of June 30, 2015 and 2014, respectively, are comprised entirely of donor-restricted endowment funds. Donor-restricted endowment funds include gifts totaling \$381,752 and \$369,638 as of June 30, 2015 and 2014, respectively, which require income to be added to the original gift until designated by the donor. Board-designated endowments, which are classified as unrestricted net assets, were \$12,186,927 and \$11,132,146 at June 30, 2015 and 2014, respectively.

Changes in endowment net assets for the years ended June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance as of June 30, 2013	\$ 9,284,268	1,050,836	15,352,475	25,687,579
Contributions	512,471	—	1,352,817	1,865,288
Investment income	1,422,179	2,595,925	24,346	4,042,450
Appropriated for expenditure	(86,772)	(654,171)	—	(740,943)
Balance as of June 30, 2014	11,132,146	2,992,590	16,729,638	30,854,374
Contributions	817,838	—	277,929	1,095,767
Investment income	320,933	577,923	12,114	910,970
Appropriated for expenditure	(83,990)	(487,886)	—	(571,876)
Balance as of June 30, 2015	\$ <u>12,186,927</u>	<u>3,082,627</u>	<u>17,019,681</u>	<u>32,289,235</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 temporarily restricted income, are reported in unrestricted net assets. These deficiencies resulted from unfavorable market conditions. No deficiency existed for fiscal year 2015 or 2014.

(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.

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(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.

(8) **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, 2015 and 2014, trusts and pledges receivable held for the benefit of CHOC and CCMH totaled \$30,996,047 and \$31,727,481, respectively, as a component of assets whose use is limited in the statements of financial position.

(b) ***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 \$660,000 with CHOC during fiscal years 2015 and 2014 under such agreement. At June 30, 2015 and 2014, the Organization had a payable to CHOC of \$1,041,483 and \$377,418, respectively. Also, the Organization has a similar agreement with CHC for certain other managerial services. The Organization incurred fees of \$90,000 under this agreement with CHC during fiscal years 2015 and 2014. At June 30, 2015 and 2014, the Organization had a payable to CHC of \$7,500. All of these fees are included in program services, management and general, and fund-raising expenses in the accompanying statements of activities.

(c) ***Rental Expenses***

The Organization rents office facilities from CRC, the expense for which totaled \$281,746 and \$270,936 for the years ended 2015 and 2014, respectively, and is included in program services, management and general, and fund-raising expenses in the accompanying statements of activities.

CHOC FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(9) 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.

(10) Subsequent Events

Evaluation Date

The Organization has evaluated subsequent events from the statement of financial position date through October 1, 2015, the date on which the financial statements were available to be issued.