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HOAG HOSPITAL FOUNDATION

Consolidated Financial Statements and
Supplementary Information

December 31, 2018 and 2017

(With Independent Auditors’ Report Thereon)

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Supplementary Information

December 31, 2018 and 2017

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KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Audit Committee
Hoag Hospital Foundation:

We have audited the accompanying consolidated financial statements of Hoag Hospital Foundation and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the year ended December 31, 2018 and six months ended December 31, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity 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 consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hoag Hospital Foundation and its subsidiary as of December 31, 2018 and 2017, and the related changes in their financial position and their cash flows for the year ended December 31, 2018 and six months ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

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Emphasis of Matter

As discussed in note 1 to the consolidated financial statements, on January 1, 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, requiring a change in the presentation of net assets and enhanced financial statement disclosures. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

May 2, 2019

HOAG HOSPITAL FOUNDATION

Consolidated Balance Sheets

(In thousands)

Assets		December 31 2018	December 31 2017
Cash and cash equivalents	$	25,325	20,007
Investments		185,796	174,351
Donations and bequests pledged, less allowance for uncollectable pledges and unamortized discount		80,551	80,331
Property, plant and equipment, net of accumulated depreciation ($111 and $0, as of December 31, 2018 and 2017, respectively)		189	—
Other assets		2,814	1,470
Total assets	$	294,675	276,159
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	5,089	5,682
Liability to annuitants and other beneficiaries		5,632	8,521
Due to Hoag Memorial Hospital Presbyterian		4,638	3,532
Total liabilities		15,359	17,735
Net assets:			
Without donor restrictions		25,389	11,707
With donor restrictions		253,927	246,717
Total net assets		279,316	258,424
Total liabilities and net assets	$	294,675	276,159

See accompanying notes to consolidated financial statements.

HOAG HOSPITAL FOUNDATION

Consolidated Statements of Activities and Changes in Net Assets

Year ended December 31, 2018

(In thousands)

		Without donor restrictions	With donor restrictions	Total
Revenues, losses, and other support:				
Contributions	$	12,449	33,916	46,365
Investment gains, net		1,797	846	2,643
Change in value of split-interest agreements		—	9,845	9,845
		14,246	44,607	58,853
Net assets released from restrictions or redesignated		37,397	(37,397)	—
Total revenues, losses, and other support		51,643	7,210	58,853
Operating expenses:				
Fund-raising		12,459	—	12,459
General and administrative		3,134	—	3,134
Total operating expenses		15,593	—	15,593
Grants to Hoag Memorial Hospital Presbyterian for program purposes		17,045	—	17,045
Grants to Hoag Memorial Hospital Presbyterian for property and capital additions		5,323	—	5,323
Total program related grants		22,368	—	22,368
Total operating expenses and program related grants		37,961	—	37,961
Change in net assets		13,682	7,210	20,892
Net assets at beginning of year		11,707	246,717	258,424
Net assets at end of year	$	25,389	253,927	279,316

See accompanying notes to consolidated financial statements.

HOAG HOSPITAL FOUNDATION

Consolidated Statements of Activities and Changes in Net Assets

Six months ended December 31, 2017

(In thousands)

		Without donor restrictions	With donor restrictions	Total
Revenues, losses, and other support:				
Contributions	$	3,173	31,181	34,354
Investment gains, net		1,330	7,617	8,947
Change in value of split-interest agreements		—	(4,685)	(4,685)
		4,503	34,113	38,616
Net assets released from restrictions or redesignated		9,240	(9,240)	—
Total revenues, losses, and other support		13,743	24,873	38,616
Operating expenses:				
Fund-raising		440	—	440
General and administrative		4,970	—	4,970
Total operating expenses		5,410	—	5,410
Grants to Hoag Memorial Hospital Presbyterian for program purposes		7,136	—	7,136
Grants to Hoag Memorial Hospital Presbyterian for property and capital additions		1,118	—	1,118
Total program related grants		8,254	—	8,254
Total operating expenses and program related grants		13,664	—	13,664
Change in net assets		79	24,873	24,952
Net assets at beginning of year		11,628	221,844	233,472
Net assets at end of year	$	11,707	246,717	258,424

See accompanying notes to consolidated financial statements.

HOAG HOSPITAL FOUNDATION

Consolidated Statements of Cash Flows

Year ended December 31, 2018 and six months ended December 31, 2017

(In thousands)

		2018	2017
Operating activities:			
Change in net assets	$	20,892	24,952
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Contributions with donor restrictions		(27,089)	(20,291)
Changes in operating assets and liabilities:			
Investments		(11,445)	(10,302)
Donations and bequests pledged		(220)	(11,869)
Other assets		(1,344)	(691)
Accounts payable and accrued expenses		(593)	3,255
Liability to annuitants and other beneficiaries		(2,889)	4,397
Change in amounts due to Hoag Memorial Hospital Presbyterian		917	790
Net cash used in operating activities		(21,771)	(9,759)
Financing activities:			
Proceeds from contributions with donor restrictions		27,089	20,291
Net cash provided by financing activities		27,089	20,291
Net increase in cash and cash equivalents		5,318	10,532
Cash and cash equivalents at beginning of year		20,007	9,475
Cash and cash equivalents at end of year	$	25,325	20,007

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Hoag Hospital Foundation (the Foundation) is a not-for-profit corporation that raises funds to support Hoag Memorial Hospital Presbyterian (the Hospital), a related organization. The Hospital is the sole voting corporate member of the Foundation.

The Foundation's bylaws provide that its Board of Directors will be elected annually by the Hospital's Board of Directors. Generally, all funds raised by the Foundation are distributed to, or held for the benefit of, the Hospital. Funds of the Foundation are distributed to the Hospital in amounts determined by the Foundation's Board of Directors in accordance with the purposes specified by the donors.

Hoag Charity Sports, a California not-for-profit corporation, engages in charitable activities for the benefit of the Foundation. The Foundation is the sole corporate member of Hoag Charity Sports.

The Foundation and Hoag Charity Sports changed its June 30 fiscal year end to a calendar year end starting in 2018. The change resulted in a six month stub period beginning July 1, 2017 through December 31, 2017.

(b) Basis of Consolidation

The consolidated financial statements include the accounts of the Foundation and Hoag Charity Sports (collectively, the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of the Organization's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates could also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The carrying amount approximates fair value because of the short maturity of the investments. Cash and cash equivalents include money market investments with weighted average maturities of three months or less.

(e) Investments

Investments in debt and equity securities and commingled fixed income and equity funds with readily determinable fair values, and all investments in mutual funds, are measured at fair value in the consolidated balance sheets. Investments in partnerships, limited liability companies, and similarly structured entities, including certain equity commingled funds, are measured at fair value using the net asset value as a practical expedient. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the change in net assets without donor restrictions unless the income or loss is restricted by donor or law.

(Continued)

(f) Donor-Restricted Gifts

Unconditional promises to give cash and other assets are received by the Organization and 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 at the date the gift is received. 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. Upon expiration of a donor restriction, 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 consolidated statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

(g) Net Assets

The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

(i) Without Donor Restrictions

Net assets without donor restrictions represent resources which are not subject to donor restrictions and over which the board of directors of the Foundation retain control to use the funds in order to achieve the Foundation’s purpose.

(ii) With Donor Restrictions

Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those restricted by the donor for a particular purpose and will be met by the passage of time or other events specified by the donor.

Other donor-imposed restrictions are to maintain resources in perpetuity. This consists predominantly of endowment funds and charitable trusts. Donor-restricted endowment funds represent funds that are gift instruments in which the principal is required to be invested in perpetuity. Also included are trust funds that represent donor contributions of irrevocable trusts and other instruments wherein the Foundation has a remainder interest in the trust assets upon the death of the last surviving income beneficiary.

(h) Donations and Bequests Pledged

Donations and bequests of private support are recorded as revenue upon the receipt of the unconditional promise to give. The Organization is the ultimate remainderman of certain trusts. Assets, which relate to irrevocable, unconditional promises to give, are included in net assets with donor restrictions, and are recorded at fair value. Distributions of income are made in accordance with trust agreements. The Organization believes that certain donations and bequests pledged may not be collected, and has provided an allowance for such amounts.

(Continued)

(i) Income Taxes

The Foundation and Hoag Charity Sports are exempt from federal and California state income and franchise taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d), respectively. The Foundation and Hoag Charity Sports are recognized as public charities under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code.

(j) Split-Interest Agreements

Split-interest agreements, which are a component of donations and bequests pledged, are arrangements in which a donor enters into a trust or other arrangements under which the benefits of such arrangements are distributed to a designated beneficiary or beneficiaries over the trust term or the agreement's term. The Organization has received contributions under charitable remainder trust arrangements whereby the Organization serves as trustee. The contributions are recognized in the period in which the trust is established. The assets are recorded at fair value when received and the liability to the designated beneficiary is recorded at the present value of the estimated future payments to be distributed over the expected life of the beneficiary using a discount rate that reflects current market conditions. The Organization also receives charitable remainder trusts when another trustee holds the assets. In that case, the asset is recorded net of the liability to the designated beneficiary. The Organization has also received contributions under charitable gift annuity arrangements whereby the donor contributes assets in exchange for a promise by the recipient to pay a fixed amount for a specified period of time to the donor or others designated by the donor. These donations are not governed by a trust agreement.

(k) Self-Insurance

The Organization is covered by the Hospital's self-insurance policies for workers' compensation claims and employee health claims, subject to certain limitations. The liability risks associated with workers' compensation in excess of $1.0 million per occurrence and employee health in excess of $0.4 million per individual are reinsured with major independent insurance companies.

(l) Contributed Services

The Organization receives the services of numerous unpaid volunteers in connection with fund-raising activities. Volunteers primarily perform between 8 and 40 hours of service during certain fund-raising events and such services are generally limited to the staffing of booths and patron assistance. The services do not require specialized skills and therefore no revenue is recognized as a result of these donated services.

(m) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. In March, April, and May 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-11, and ASU 2016-12, *Revenue from Contracts with Customers*, each of which amends the guidance in ASU 2014-09. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management does not expect a material impact to the overall consolidated financial statements upon adoption of this guidance on January 1, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This update will result in key changes to lease accounting and will aim to bring leases onto balance sheets to give investors, lenders, and other financial statement users a more comprehensive view of a company's long-term financial obligations as well as the assets it owns versus leases. Management is currently evaluating the impact this standard will have on the Organization's consolidated financial statements as well as the expected adoption method. This guidance is required to be implemented on January 1, 2020.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in Topic 958, *Not-for-Profit Entities*. Provisions of this update include: The reduction in the number of net asset classes presented from three to two: with donor restrictions and without donor restriction; the requirement to present expenses by their functional and their natural classification in one location in the financial statements; the requirement to present quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and the retention of the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. The Organization adopted this guidance effective January 1, 2018.

(2) Investments

The composition of investments is as follows:

	December 31	
	2018	2017
	(In thousands)	
Investments:		
Cash and cash equivalents	$ 13,576	10,741
U.S. government agency and treasury notes	3,880	3,764
Mutual funds	26,455	20,025
Equity and fixed income commingled funds	45,246	47,397
Debt and equity securities	20,041	20,698
Hedge funds	36,260	33,512
Private equity	24,474	21,399
Real assets	15,864	16,815
Total investments	$ 185,796	174,351

The Organization's classification of "mutual funds" includes fixed-income mutual funds which may be nondiversified under federal securities laws and may concentrate assets in geographic regions or countries, sectors, and securities issuers. The Organization's classification of mutual funds also includes a mutual fund which deploys a commodity real-return strategy. The mutual funds have daily liquidity.

The Organization's classification of "equity commingled funds" includes investments in commingled fund vehicles including a limited liability company, limited partnerships, common trust funds, and Cayman Islands exempt companies which invest primarily in marketable equity securities. The equity commingled funds have thrice-monthly to monthly liquidity subject to certain notice requirements. The fund managers have reserved the right to suspend redemption rights in certain circumstances.

The Organization's classification of "fixed income commingled fund'' includes investments in limited liability companies which invest primarily in fixed income securities. Fixed income commingled funds have daily liquidity subject to two business days' notice. The fund managers have reserved the right to suspend redemption rights in certain circumstances.

The Organization's classification of "hedge funds" consists of direct and multi-manager fund-of-funds hedge fund investments which implement a range of alternative investment strategies, including, but not limited to, long/short equity, credit, managers investing opportunistically across the capital structure, and other strategies. The Organization's investments in hedge funds have limited liquidity since shares or interests in the hedge funds are not freely transferable and are subject to various lock-up periods, redemption rights, notice requirements and gating provisions. In addition, the hedge funds typically reserve the rights to reduce or suspend redemptions and to satisfy redemptions by making distributions in-kind, under certain circumstances. Additionally, certain hedge funds may hold, directly or indirectly, side pocket investments where no redemptions are permitted until such investments are liquidated or deemed realized.

The Organization's classification of "private equity" consists of direct and fund-of-funds private equity investments, including private equity buyout, venture capital, energy, direct financing (debt and equity), mezzanine, and secondary private equity funds. These private equity investments typically have investment terms greater than ten years. The Organization may not withdraw or sell, assign or transfer its interests in the private equity funds except in certain very limited circumstances, subject to consent by the general partners of the funds.

The Organization's classification of "real assets" consists of limited partnership structured investments which invest in timberland properties, farmland properties, distressed real estate, real estate operating companies, energy sectors, and energy infrastructure debt. It also includes a global real estate equity fund and a natural resources exchange-traded fund. The investment terms of the limited partnership real asset investment funds are typically greater than ten years and the Organization may not withdraw or sell, assign or transfer its interests in these funds except in certain very limited circumstances, subject to consent by the general partners of the funds. The global real estate equity fund is structured as a limited partnership and has monthly liquidity with 15 days' advance written notice, subject to certain withdrawal fees, and audit holdbacks. The fund has reserved the right to suspend redemptions in certain circumstances. The natural resources exchange-traded fund has daily liquidity.

(Continued)

Except for the global real estate fund and the natural resources exchange-traded fund, the Organization's investments in the real asset and private equity funds described in the preceding paragraphs are structured as "drawdown" funds, which means that the Organization has committed capital to the funds and the fund managers make capital calls as the investment opportunities develop over initial investment periods, which could last between two to six years. The table below summarizes the Organization's commitments and uncalled capital at December 31, 2018:

	Capital commitment	Capital contributions	Uncalled capital
		(In thousands)	
Private equity	$ 42,611	31,831	10,780
Real assets	24,500	16,932	7,568
Total	$ 67,111	48,763	18,348

Investments in debt and equity securities and commingled fixed income and equity funds with readily determinable fair values, and all investments in mutual funds are measured at fair value. The Organization utilizes the net asset value as a practical expedient to measure fair value for its hedge fund, private equity and certain equity commingled funds and real asset investments. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in investment income unless the income or loss is restricted by donor or law. Net investment gains during the periods ended, include the following:

	Year ended December 31, 2018	Six months ended December 31, 2017
	(In thousands)	
Interest and dividend income	$ 2,244	1,221
Net gain on investments	1,115	8,023
Less investment fees	(716)	(297)
	$ 2,643	8,947

(3) Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy prioritizes the inputs used in measuring fair value as follows:

- *Level 1*: Pricing is based on observable inputs such as quoted prices in active markets.

- *Level 2*: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3*: Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques identified in the table below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

(a) *Market approach*: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) *Cost approach*: Amount that would be required to replace the service capacity of an asset (replacement cost).

(c) *Income approach*: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess-earnings models).

(d) *Net asset value approach*: Measurement using the net asset value as a practical expedient.

The Organization's investments in partnerships, limited liability companies and similarly structured entities, including hedge funds, private equity and certain equity commingled funds and real assets investments, amounting to approximately $94.5 million and $89.1 million as of December 31, 2018 and 2017, respectively, are reported at net asset value.

The Organization records donations and bequests pledged at fair value at the time the gift is made. Certain gifts are made through charitable remainder trusts and similar structures, the values of which vary over time. A portion of these trusts hold investment securities and the Organization adjusts the amount of such gifts to fair value. In some cases, the Organization is not the trustee, for which the Organization adjusts the bequest to fair value using present value techniques based on mortality tables and discount rates that are consistent with Internal Revenue Service (IRS) published rates.

The Organization is liable for income to beneficiaries under certain split-interest agreements. The fair values of these liabilities are estimated using present value techniques based on mortality tables and discount rates that are consistent with IRS published rates.

The following tables provide the methods used to measure the fair value of certain assets and liabilities. Only assets and liabilities measured at fair value are shown in the three-tier fair value hierarchy (in thousands).

	Fair value at December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value method investments	Investments at net asset value	Valuation technique (a, b, c, d)
Cash and cash equivalents	$ 25,325	25,325	—	—	25,325	—	a
Investments:							
Cash and cash equivalents	$ 13,576	13,576	—	—	13,576	—	a
U.S. government agency and treasury notes	3,880	—	3,880	—	3,880	—	a, c
Mutual funds:							
Fixed income	23,267	23,267	—	—	23,267	—	a
Commodity real return	3,188	3,188	—	—	3,188	—	a
Debt and equity securities	20,041	6,137	13,905	—	20,042	—	a, c
Equity and fixed income commingled funds	45,246	—	27,319	—	27,319	17,926	a, c, d
Hedge funds	36,260	—	—	—	—	36,260	d
Private equity	24,474	—	—	—	—	24,474	d
Real assets	15,864	—	—	—	—	15,864	d
	$ 185,796	46,168	45,104	—	91,272	94,524	
Charitable remainder trust and gift annuity assets	$ 7,706	5,679	—	2,028	7,707	—	a, c
Charitable remainder trust, gift annuity liabilities, and use obligation	$ 5,632	—	—	5,632	5,632	—	a, c

	Fair value at December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value method investments	Investments at net asset value	Valuation technique (a, b, c, d)
Cash and cash equivalents	$ 20,007	20,007	—	—	20,007	—	a
Investments:							
Cash and cash equivalents	$ 10,741	10,741	—	—	10,741	—	a
U.S. government agency and treasury notes	3,764	—	3,764	—	3,764	—	a, c
Mutual funds:							
Fixed income	17,832	17,832	—	—	17,832	—	a
Commodity real return	2,193	2,193	—	—	2,193	—	a
Debt and equity securities	20,698	8,072	12,626	—	20,698	—	a, c
Equity and fixed income commingled funds	47,397	—	28,185	—	28,185	19,212	a, c, d
Hedge funds	33,512	—	—	—	—	33,512	d
Private equity	21,399	—	—	—	—	21,399	d
Real assets	16,815	1,846	—	—	1,846	14,969	d
	$ 174,351	40,684	44,575	—	85,259	89,092	
Charitable remainder trust and gift annuity assets	$ 9,062	7,277	—	1,785	9,062	—	a, c
Charitable remainder trust, gift annuity liabilities, and use obligation	$ 8,521	—	—	8,521	8,521	—	a, c

The tables below set forth a summary of changes in the fair value of the Organization's Level 3 financial assets and liabilities:

	Assets	Liabilities
	(In thousands)	
Year ended December 31, 2018:		
Balance, beginning of period	$ 1,785	8,521
Total gains or losses for the period	(133)	177
Purchases, settlements and others, net	376	(3,066)
Balance, end of period	$ 2,028	5,632
Six months ended December 31, 2017:		
Balance, beginning of period	$ 1,453	4,124
Total gains or losses for the period	93	1,182
Purchases, settlements and others, net	239	3,215
Balance, end of period	$ 1,785	8,521

The Organization received restricted pledges and contributions totaling $33.9 million and $31.1 million during the year ended December 31, 2018 and six months ended December 31, 2017, respectively, that were subject to fair value measurement. The restricted pledges and contributions were measured using discounted cash flow projections as outlined in the income value approach.. Approximately $25.5 million of the restricted contributions received in the year ended December 31, 2018 were recorded as a pledge receivable as of December 31, 2018.

(4) Endowment

The Organization's endowment consists of approximately 60 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors of the Foundation to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There were no underwater endowments as of December 31, 2018.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (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 restrictions 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 donor-restricted endowment fund is 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:

a. The duration and preservation of the fund

b. The purposes of the Organization and the donor-restricted endowment fund

c. General economic conditions

d. The possible effect of inflation and deflation

e. The expected total return from income and the appreciation of investments

f. Other resources of the Organization

g. The investment policies of the Organization

The endowment net asset composition by fund type is as follows:

		Without donor restrictions	With donor restrictions	Total
		(In thousands)		
December 31, 2018:				
Donor-restricted endowment funds	$	—	123,521	123,521
Board-designated endowment funds		7,446	—	7,446
Total endowment funds	$	7,446	123,521	130,967
December 31, 2017:				
Donor-restricted endowment funds	$	—	127,914	127,914
Board-designated endowment funds		8,707	—	8,707
Total endowment funds	$	8,707	127,914	136,621

The Board of Directors has designated net assets without donor restrictions for the following purposes:

		December 31	
		2018	2017
		(In thousands)	
Heart programs	$	1,365	1,351
Women's programs		104	144
General activities		5,977	7,212
Total Board-designated endowment funds	$	7,446	8,707

Changes in endowment net assets during the year ended December 31, 2018 and six months ended December 31, 2017, are as follows:

		Without donor restrictions	With donor restrictions	Total
		(In thousands)		
December 31, 2018:				
Endowment net assets, beginning of period	$	8,707	127,914	136,621
Investment income		409	566	975
Net appreciation		308	315	623
Contributions, net		35	860	895
Appropriation of endowment assets for expenditure		(1,295)	(5,383)	(6,678)
Redesignation by donor and other		(718)	(751)	(1,469)
Endowment net assets, end of period	$	7,446	123,521	130,967

	Without donor restrictions	With donor restrictions	Total
	(In thousands)		
December 31, 2017:			
Endowment net assets, beginning of period	$ 5,841	120,798	126,639
Investment income	212	231	443
Net appreciation	356	6,741	7,097
Contributions, net	30	2,343	2,373
Appropriation of endowment assets for expenditure	2,268	(2,314)	(46)
Redesignation by donor and other	—	115	115
Endowment net assets, end of period	$ 8,707	127,914	136,621

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while balancing the risk of investment loss with the long-term preservation of purchasing power. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds.

The Organization seeks to maintain the purchasing power of the endowment assets portfolio and to achieve rates of returns which over time exceed inflation by a specified margin. To achieve its long-term investment objectives within prudent risk constraints, the Organization develops strategic asset allocation ranges and targets for the endowment portfolio and considers factors including, but not limited to, time horizon, liquidity and risk tolerance. The current asset allocation targets emphasize diversification across asset classes to manage risk and enhance returns. Actual allocations may differ from target allocations in the short term or during periods of significant market fluctuations. In addition, the Organization confirms the asset allocation ranges on an annual basis and updates the investment policy and/or target allocations, as needed, if there is a significant change in capital market expectations and/or investment objectives, including spending requirements. The Organization seeks to achieve returns which will compare favorably to the returns of the applicable markets and representative peers.

The Organization’s policy allows the Board of Directors to determine a spending rate from endowment investments on an annual basis, which is subject to change. In establishing this policy, the Organization considers the fair value and long-term expected return on its endowment and the factors described above. The spending rate was 4.5% in 2018 and 2017.

(Continued)

(5) Donations and Bequests Pledged

Unconditional promises to give are generally recognized as contribution revenue when the promises are made at fair value, which is determined by the present value of the expected future payments. The amounts of pledges and bequests, net of any discount and allowance for doubtful accounts, receivable in one year or less, from one to five years, and after five years are as follows:

		December 31	
		2018	2017
		(In thousands)	
Due in one year or less	$	17,437	17,944
Due after one year through five years		27,180	30,923
Due after five years		48,427	31,885
		93,044	80,752
Less allowance for uncollectible pledges		(2,610)	(2,135)
Less unamortized discount		(20,910)	(15,622)
Pledges receivable, net		69,524	62,995
Split-interest agreements (charitable remainder trusts and other)		11,027	17,336
	$	80,551	80,331

Pledges receivable at December 31, 2018 include approximately $7.8 million restricted for endowments and $58.0 million restricted for the benefit of neuroscience, cancer, heart and other programs.

The fair value of pledges receivable was determined by calculating the net present value of the estimated future cash flows using a discount rate at the time the pledge was made, which ranges between 0.94% and 5.00%. The discount rate was determined by the IRS discount rate table based on the term of the pledges.

The Organization has received contributions from various types of split-interest agreements in which the Organization is the trustee, including charitable remainder trusts, charitable gift annuities and life interest in real estate agreements. Under a charitable gift annuity arrangement, the Organization recognizes the contribution in the period in which the contract is executed. Adjustments to the fair value of the assets, amortization of the discount, and changes in the actuarial assumptions used during the term of the trust or agreement are recorded as change in value of split-interest agreements in the accompanying consolidated statements of activities and changes in net assets.

(6) Split-Interest Agreements

The Organization is a beneficiary of charitable remainder trust assets contributed by donors under unconditional, irrevocable agreements held by independent trustees or other fiscal agents. Where known, assets have been included at their estimated fair value in the accompanying consolidated financial statements. In some cases, the estimated fair value of such assets cannot be determined due to confidentiality provisions or other factors and, accordingly, such assets are not included in the accompanying consolidated financial statements.

The Organization is also the beneficiary of various charitable remainder trusts that are revocable. The value of certain of these trusts has not been disclosed to the Organization and cannot be reasonably estimated. Assets that relate to revocable trusts or conditional promises to give, for which the Organization is not a trustee, are not included in the accompanying consolidated financial statements. The Organization recognizes these contributions as revenue when the amounts are received or when the promise to give becomes unconditional.

The Organization also received life interest in real estate contributions, whereby the title of the real property is transferred to the Organization at the point of contribution. Donor imposed restrictions exist on the use of the real property, and the property cannot be sold until the death of the donor. The Organization has elected to keep the value of these real estate contributions at the fair value at the donation date. Oftentimes, the agreement also allows the donor to reside in the donated property for remainder of the term, with the donor remaining responsible for the executory costs. In those situations, the Organization has recorded a use obligation based on estimated fair value of rent revenue that the Organization is forgoing by entering into such agreements.

The Organization received contributions related to split-interest agreements totaling $0.8 million and $0.4 million during the year ended December 31, 2018 and six months ended December 31, 2017, respectively. Legally mandated reserves amount to $3.8 million and $4.8 million as of December 31, 2018 and 2017, respectively.

	Year ended December 31, 2018			
	Charitable gift annuities	**Charitable remainder trusts**	**Life interest in real estate**	**Total**
	(In thousands)			
Assets:				
Donation and bequests pledged	$ 4,700	3,007	3,320	11,027
Total assets	$ 4,700	3,007	3,320	11,027
Liabilities and net assets:				
Liability to annuitants and other beneficiaries	$ 3,778	438	1,416	5,632
Net assets	922	2,569	1,904	5,395
Total liabilities and net assets	$ 4,700	3,007	3,320	11,027

		Six months ended December 31, 2017			
		Charitable gift annuities	Charitable remainder trusts	Life interest in real estate	Total
		(In thousands)			
Assets:					
Donation and bequests pledged	$	6,090	2,971	8,275	17,336
Total assets	$	6,090	2,971	8,275	17,336
Liabilities and net assets:					
Liability to annuitants and other beneficiaries	$	4,751	445	3,325	8,521
Net assets		1,339	2,526	4,950	8,815
Total liabilities and net assets	$	6,090	2,971	8,275	17,336

(7) Net Assets With Donor Restrictions

Restricted net assets are time restricted or are available for the following purposes:

		December 31	
		2018	2017
		(In thousands)	
Women's programs	$	27,809	23,715
Heart programs		34,137	38,963
Cancer programs		59,632	61,961
Other programs		132,349	122,078
	$	253,927	246,717

		December 31	
		2018	2017
		(In thousands)	
Donor-restricted endowments subject to spending policy and appropriation	$	123,521	127,914
Perpetual trusts and split-interest agreements		5,395	8,815
Subject to expenditure for specified purposes		68,720	58,671
Subject to passage of time		56,291	51,317
	$	253,927	246,717

(8) Net Assets Released from Restrictions or Redesignated

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets were also redesignated between programs. The activity for the periods ended are as follows:

		Year ended December 31, 2018	Six months ended December 31, 2017
		(In thousands)	
Purpose restrictions accomplished (redesignated):			
Women's programs	$	668	596
Heart programs		6,251	1,088
Cancer programs		5,146	3,074
Education programs		2,081	650
Other programs		23,251	3,832
Total restrictions released	$	37,397	9,240

(9) Functional Classification of Expenses

The costs of program and supporting services activities have been summarized in the statements of activities and changes in net assets. The expense analysis in the table below presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or support function. The expenses that are allocated include salaries and benefits, occupancy, and office expenses which are allocated based on the full-time equivalent employee count for fundraising and general and administrative staff. Other costs are classified in each functional category based on the underlying purpose of each transaction.

	Year ended December 31, 2018			
	Program expenses	Operating expenses		
	Program related grants	Fund-raising	General and administrative	Total operating expenses and program related grants
Distributions to Hoag Hospital	$ 22,368	—	—	22,368
Salaries and benefits	—	5,379	2,085	7,464
Occupancy	—	458	186	644
Office expense	—	138	49	187
Purchased services	—	2,667	235	2,902
Professional services	—	25	336	361
Other	—	3,792	243	4,035
	$ 22,368	12,459	3,134	37,961

	Six months ended December 31, 2017			
	Program expenses	Operating expenses		
	Program related grants	Fund-raising	General and administrative	Total operating expenses and program related grants
Distributions to Hoag Hospital	$ 8,254	—	—	8,254
Salaries and benefits	—	342	3,296	3,638
Occupancy	—	20	304	324
Office expense	—	5	55	60
Purchased services	—	21	757	778
Professional services	—	10	150	160
Other	—	42	408	450
	$ 8,254	440	4,970	13,664

(10) Liquidity and Availability

The Organization regularly monitors liquidity required to meet its ongoing operating needs, liabilities, and other obligations as they become due. As the Organization exists to benefit the Hospital, the majority of the financial assets recorded by the Organization are not available to support the Organization's operating needs.

In addition to financial assets available to meet general expenditures over the next twelve months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

As of December 31, 2018, $23.9 million, or 8.1%, of the Organization's total assets could readily be made available within one year of the date of the consolidated balance sheet date to meet general expenditures.

(11) Related-Party Transactions

The Hospital leases employees, facilities, and equipment to the Organization, and also provides other administrative services, including cash management, accounting, risk management and other management services. The Organization incurred costs of approximately $9.5 million and $4.6 million for the year ended December 31, 2018 and six months ended December 31, 2017, respectively, with the Hospital for these services which is included in the fundraising and general and administrative expense in the consolidated statement of activities.

(12) Retirement Plan

The Organization participates in the Hospital's 401(k) plan in which substantially all employees who meet certain defined eligibility criteria are eligible. The plan provides for a discretionary annual contribution by the Hospital of a minimum of 3% of gross wages of eligible employees and a matching contribution by the Hospital of 50% (up to 4% of gross wages) of eligible employee contributions. The Organization's portion of such contributions to the plan is included in the fees charged to the Organization by the Hospital.

(13) Subsequent Events

The Organization has evaluated subsequent events occurring between the end of the most recent fiscal year ended December 31, 2018 and May 2, 2019, the date on which the accompanying consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HOAG HOSPITAL FOUNDATION

Consolidating Balance Sheet

December 31, 2018

(In thousands)

Assets		Hoag Hospital Foundation	Hoag Charity Sports	Eliminations	Consolidated
Cash and cash equivalents	$	23,633	1,692	—	25,325
Investments		185,796	—	—	185,796
Donations and bequests pledged, net of allowance for doubtful accounts and unamortized discount		80,551	—	—	80,551
Property, plant and equipment, net of accumulated depreciation		189	—	—	189
Other assets		464	2,350	—	2,814
Total assets	$	290,633	4,042	—	294,675
Liabilities and Net Assets					
Accounts payable and accrued expenses	$	2,220	2,869	—	5,089
Liability to annuitants and other beneficiaries		5,632	—	—	5,632
Due to Hoag Memorial Hospital Presbyterian		3,447	1,191	—	4,638
Total liabilities		11,299	4,060	—	15,359
Net assets:					
Without donor restrictions		24,004	(18)	1,403	25,389
With donor restrictions		255,330	—	(1,403)	253,927
Total net assets		279,334	(18)	—	279,316
Total liabilities and net assets	$	290,633	4,042	—	294,675

See accompanying independent auditors’ report.

HOAG HOSPITAL FOUNDATION

Consolidating Statement of Activities and Changes in Net Assets

Year ended December 31, 2018

(In thousands)

	Without donor restrictions				With donor restrictions			
	Hoag Hospital Foundation	Hoag Charity Sports	Eliminations	Total	Hoag Hospital Foundation	Eliminations	Total	Consolidated
Revenues, losses, and other support:								
Contributions	$ 6,092	6,357		12,449	34,441	(525)	33,916	46,365
Investment gains, net	1,797	—	—	1,797	846	—	846	2,643
Change in value of split-interest agreements	—	—	—	—	9,845	—	9,845	9,845
	7,889	6,357	—	14,246	45,132	(525)	44,607	58,853
Net assets released from restrictions or redesignated	38,110	—	(713)	37,397	(38,110)	713	(37,397)	—
Total revenues, losses, and other support	45,999	6,357	(713)	51,643	7,022	188	7,210	58,853
Operating expenses:								
Fund-raising	7,128	5,856	(525)	12,459	—	—	—	12,459
General and administrative	3,041	93	—	3,134	—	—	—	3,134
Total operating expenses	10,169	5,949	(525)	15,593	—	—	—	15,593
Grants to Hoag Memorial Hospital Presbyterian for program purposes	17,045	—	—	17,045	—	—	—	17,045
Grants to Hoag Memorial Hospital Presbyterian for property and capital additions	5,323	—	—	5,323	—	—	—	5,323
Total program related grants	22,368	—	—	22,368	—	—	—	22,368
Total operating expenses and program related grants	32,537	5,949	(525)	37,961	—	—	—	37,961
Change in net assets	13,462	408	(188)	13,682	7,022	188	7,210	20,892
Net assets at beginning of year	10,542	(426)	1,591	11,707	248,308	(1,591)	246,717	258,424
Net assets at end of year	$ 24,004	(18)	1,403	25,389	255,330	(1,403)	253,927	279,316

See accompanying independent auditors' report.