



HOAG HOSPITAL FOUNDATION
Consolidated Financial Statements
December 31, 2023 and 2022
(With Independent Auditors' Report Thereon)

HOAG HOSPITAL FOUNDATION
Consolidated Financial Statements
December 31, 2023 and 2022

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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:

Opinion

We have audited the consolidated financial statements of Hoag Hospital Foundation and its subsidiary (the Foundation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 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 Consolidated Financial Statements section of our report. We are required to be independent of the Foundation 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 Foundation'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation'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

Portland, Oregon
April 19, 2024

HOAG HOSPITAL FOUNDATION

Consolidated Balance Sheets

December 31, 2023 and 2022

(In thousands)

Assets	2023	2022
Cash and cash equivalents	\$ 19,400	25,908
Investments	435,947	399,083
Donations and bequests pledged, less allowance for uncollectable pledges and unamortized discounts	171,214	117,954
Property, plant and equipment, net of accumulated depreciation \$613 and and \$420, as of December 31, 2023 and 2022, respectively)	836	803
Other assets	342	3,537
Total assets	<u>\$ 627,739</u>	<u>547,285</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 3,613	6,637
Liability to annuitants and other beneficiaries	11,070	10,149
Due to Hoag Memorial Hospital Presbyterian	3,576	9,099
Total liabilities	<u>18,259</u>	<u>25,885</u>
Net assets:		
Without donor restrictions	141,588	132,509
With donor restrictions	467,892	388,891
Total net assets	<u>609,480</u>	<u>521,400</u>
Total liabilities and net assets	<u>\$ 627,739</u>	<u>547,285</u>

See accompanying notes to consolidated financial statements.

HOAG HOSPITAL FOUNDATION

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2023

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues, losses, and other support:			
Contributions	\$ 9,541	92,440	101,981
Investment gains, net	19,148	18,191	37,339
Change in value of split-interest agreements	—	(1,626)	(1,626)
	<u>28,689</u>	<u>109,005</u>	<u>137,694</u>
Net assets released from restrictions or redesignated	<u>30,004</u>	<u>(30,004)</u>	<u>—</u>
Total revenues, losses, and other support	<u>58,693</u>	<u>79,001</u>	<u>137,694</u>
Operating expenses:			
Fund-raising	14,684	—	14,684
General and administrative	6,910	—	6,910
Total operating expenses	<u>21,594</u>	<u>—</u>	<u>21,594</u>
Grants to Hoag Memorial Hospital Presbyterian and affiliates for program purposes	23,006	—	23,006
Grants to Hoag Memorial Hospital Presbyterian and affiliates for property and capital additions	5,901	—	5,901
Total program related grants	<u>28,907</u>	<u>—</u>	<u>28,907</u>
Total operating expenses and program related grants	<u>50,501</u>	<u>—</u>	<u>50,501</u>
Other changes in net assets:			
Net asset transfers – Hoag Charity Sports	887	—	887
Total other changes in net assets	<u>887</u>	<u>—</u>	<u>887</u>
Change in net assets	9,079	79,001	88,080
Net assets at beginning of year	<u>132,509</u>	<u>388,891</u>	<u>521,400</u>
Net assets at end of year	<u>\$ 141,588</u>	<u>467,892</u>	<u>609,480</u>

See accompanying notes to consolidated financial statements.

HOAG HOSPITAL FOUNDATION

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2022

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues, losses, and other support:			
Contributions	\$ 17,899	25,365	43,264
Investment losses, net	(9,949)	(13,495)	(23,444)
Change in value of split-interest agreements	—	722	722
	<u>7,950</u>	<u>12,592</u>	<u>20,542</u>
Net assets released from restrictions or redesignated	<u>43,177</u>	<u>(43,177)</u>	<u>—</u>
Total revenues, losses, and other support	<u>51,127</u>	<u>(30,585)</u>	<u>20,542</u>
Operating expenses:			
Fund-raising	17,810	—	17,810
General and administrative	6,665	—	6,665
Total operating expenses	<u>24,475</u>	<u>—</u>	<u>24,475</u>
Grants to Hoag Memorial Hospital Presbyterian and affiliates for program purposes	26,987	—	26,987
Grants to Hoag Memorial Hospital Presbyterian and affiliates for property and capital additions	13,469	—	13,469
Total program related grants	<u>40,456</u>	<u>—</u>	<u>40,456</u>
Total operating expenses and program related grants	<u>64,931</u>	<u>—</u>	<u>64,931</u>
Change in net assets	(13,804)	(30,585)	(44,389)
Net assets at beginning of year	<u>146,313</u>	<u>419,476</u>	<u>565,789</u>
Net assets at end of year	<u>\$ 132,509</u>	<u>388,891</u>	<u>521,400</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended December 31, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
Operating activities:		
Change in net assets	\$ 88,080	(44,389)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions with donor restrictions	(38,058)	(44,895)
Changes in operating assets and liabilities:		
Investments	(36,864)	5,182
Donations and bequests pledged	(53,260)	26,688
Other assets	3,195	(900)
Accounts payable and accrued expenses	(3,024)	100
Liability to annuitants and other beneficiaries	921	(1,095)
Change in amounts due to Hoag Memorial Hospital Presbyterian	(5,556)	3,632
Net cash used in operating activities	<u>(44,566)</u>	<u>(55,677)</u>
Financing activities:		
Proceeds from contributions with donor restrictions	<u>38,058</u>	<u>44,895</u>
Net cash provided by financing activities	<u>38,058</u>	<u>44,895</u>
Net (decrease) in cash and cash equivalents	(6,508)	(10,782)
Cash and cash equivalents at beginning of year	<u>25,908</u>	<u>36,690</u>
Cash and cash equivalents at end of year	<u>\$ 19,400</u>	<u>25,908</u>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(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 its bylaws.

Hoag Charity Sports, a California not-for-profit corporation which engages in charitable activities, was a consolidated entity of the Foundation, with the Foundation as its sole member as of and for the year ended December 31, 2022. Effective January 1, 2023, the Hospital became the sole corporate member of Hoag Charity Sports, and as a result, the Foundation transferred net assets of \$0.9 million to the Hospital, which is included in other changes in net assets in the 2023 Consolidated Statement of Activities and Changes in Net Assets.

(b) Basis of Consolidation

Prior to January 1, 2023, the consolidated financial statements include the accounts of the Foundation and Hoag Charity Sports (the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

Effective January 1, 2023, Hoag Charity Sports' sole corporate member became the Hospital. Consequently, the financial information as of and for the year ended December 31, 2023, presented herein exclude the balances and activities of Hoag Charity Sports.

(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 a maturity at date of purchase of three months or less are considered to be cash and cash equivalents. Cash and cash equivalents include money market investments.

(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 and exchange traded 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

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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.

(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.

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(i) 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.

(j) 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.

(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 4 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.

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(2) Investments

The composition of investments is as follows:

	December 31	
	2023	2022
	(In thousands)	
Investments:		
Cash and cash equivalents	\$ 122,369	113,374
U.S. government agency and treasury notes	16,814	8,175
Mutual funds and exchange traded funds:		
Public equities	20,814	22,732
Fixed income	—	11,386
Commodity real return	3,441	3,715
Debt and equity securities	38,952	28,182
Equity commingled funds	35,360	25,746
Fixed income commingled funds	52,402	52,185
Hedge funds	92,236	81,846
Private equity	34,870	32,588
Real assets	18,689	19,154
Total investments	\$ 435,947	399,083

The Organization's classification of "mutual funds and exchange traded funds" includes public equity index exchange traded funds, and the prior year included a fixed-income mutual fund which may be non-diversified under federal securities laws and may concentrate assets in geographic regions or countries, sectors, and securities issuers. The Organization's classification of mutual funds and exchange traded funds also includes a mutual fund which deploys a commodity real-return strategy. The mutual funds and exchange traded funds have daily liquidity.

The Organization's classification of "equity commingled funds" includes investments in commingled fund vehicles, including a common trust fund, a limited liability company, limited partnerships, and offshore exempt entities which invest primarily in marketable equity securities. The equity commingled funds have semimonthly to annual 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 funds" 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 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,

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notice requirements and gating provisions. The hedge funds have periodic liquidity terms that range from monthly to illiquid, with notice periods ranging from 45 days to 5 months. In addition, the hedge funds typically reserve the right 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 and farmland properties, distressed real estate, real estate operating companies, and other real estate investments, as well as energy sectors, and energy infrastructure debt. 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 Organization's real assets and private equity fund investments described in the preceding paragraphs, as well as one investment classified as a hedge fund, 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 unfunded commitments at December 31, 2023:

	Capital commitment	Capital contributions	Uncalled capital
		(In thousands)	
Private equity	\$ 71,835	48,833	23,002
Real assets	27,806	23,911	3,895
Other	2,200	2,145	55
Total	\$ 101,841	74,889	26,952

Investments in debt and equity securities and equity and fixed income commingled funds with readily determinable fair values, and all investments in mutual funds and exchange traded funds are measured at fair value. The Organization utilizes the net asset value as a practical expedient to measure fair value for its

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hedge fund, private equity, certain equity commingled funds, and real asset investments. Net investment gains (losses) during the years ended December 31 include the following:

	2023	2022
	(In thousands)	
Interest and dividend income	\$ 9,700	5,440
Net gain (loss) on investments	28,957	(27,869)
Less investment fees	(1,318)	(1,015)
	\$ 37,339	(23,444)

(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).

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

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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).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>	<u>Investments at net asset value</u>	<u>Total</u>	<u>Valuation technique (a, b, c)</u>
	(In thousands)						
As of December 31, 2023:							
Cash and cash equivalents	\$ 122,369	—	—	122,369	—	122,369	a
U.S. government agency and treasury notes	—	16,814	—	16,814	—	16,814	a, c
Mutual and exchange traded funds:							
Public equities	20,814	—	—	20,814	—	20,814	a
Commodity real return	3,441	—	—	3,441	—	3,441	a
Debt and equity securities	47	38,905	—	38,952	—	38,952	a, c
Equity commingled funds	—	—	—	—	35,360	35,360	a
Fixed income commingled funds	—	52,402	—	52,402	—	52,402	a, c
Hedge funds	—	—	—	—	92,236	92,236	a
Private equity	—	—	—	—	34,870	34,870	a, c
Real assets	—	—	—	—	18,689	18,689	a, c
	<u>\$ 146,671</u>	<u>108,121</u>	<u>—</u>	<u>254,792</u>	<u>181,155</u>	<u>435,947</u>	
Charitable remainder trust and gift annuity:							
Assets	\$ 10,624	—	2,077	12,701	—	12,701	a, c
Liabilities	—	—	11,070	11,070	—	11,070	c

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	Level 1	Level 2	Level 3	Fair value	Investments at net asset value	Total	Valuation technique (a, b, c)
	(In thousands)						
As of December 31, 2022:							
Cash and cash equivalents	\$ 113,374	—	—	113,374	—	113,374	a
U.S. government agency and treasury notes	—	8,175	—	8,175	—	8,175	a, c
Mutual and exchange traded funds:							
Public equities	22,732	—	—	22,732	—	22,732	a
Fixed income	11,386	—	—	11,386	—	11,386	a, c
Commodity real return	3,715	—	—	3,715	—	3,715	a
Debt and equity securities	26	28,156	—	28,182	—	28,182	a, c
Equity commingled funds	—	—	—	—	25,746	25,746	a
Fixed income commingled funds	—	52,185	—	52,185	—	52,185	a, c
Hedge funds	—	—	—	—	81,846	81,846	a
Private equity	—	—	—	—	32,588	32,588	a, c
Real assets	—	—	—	—	19,154	19,154	a, c
	<u>\$ 151,233</u>	<u>88,516</u>	<u>—</u>	<u>239,749</u>	<u>159,334</u>	<u>399,083</u>	
Charitable remainder trust and gift annuity:							
Assets	\$ 10,439	—	2,353	12,792	—	12,792	a, c
Liabilities	—	—	10,149	10,149	—	10,149	c

The Organization received restricted pledges and contributions totaling \$92.4 million and \$25.4 million during the years ended December 31, 2023 and 2022, 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.

(4) Endowment

The Organization's endowment consists of approximately 65 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, 2023 and 2022.

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

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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:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
		(In thousands)	
December 31, 2023:			
Donor-restricted endowment funds	\$ —	172,045	172,045
Board designated endowment funds	<u>7,626</u>	<u>—</u>	<u>7,626</u>
Total endowment funds	<u>\$ 7,626</u>	<u>172,045</u>	<u>179,671</u>
December 31, 2022:			
Donor-restricted endowment funds	\$ —	159,820	159,820
Board designated endowment funds	<u>5,670</u>	<u>—</u>	<u>5,670</u>
Total endowment funds	<u>\$ 5,670</u>	<u>159,820</u>	<u>165,490</u>

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

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
	(In thousands)	
Heart programs	\$ 2,056	1,876
Women's programs	95	95
General activities	<u>5,475</u>	<u>3,699</u>
Total board-designated endowment funds	<u>\$ 7,626</u>	<u>5,670</u>

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Changes in endowment net assets during the years ended December 31, 2023 and 2022, are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
	(In thousands)		
December 31, 2023:			
Endowment net assets, beginning of period	\$ 5,670	159,820	165,490
Investment income	671	1,095	1,766
Appreciation, net	1,384	14,668	16,052
Contributions, net	—	2,333	2,333
Appropriation of endowment assets for expenditure	(99)	(6,069)	(6,168)
Redesignation by donor and other	—	198	198
Endowment net assets, end of period	<u>\$ 7,626</u>	<u>172,045</u>	<u>179,671</u>

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
	(In thousands)		
December 31, 2022:			
Endowment net assets, beginning of period	\$ 6,624	177,405	184,029
Investment income	291	1,632	1,923
Net depreciation	(1,613)	(12,986)	(14,599)
Contributions, net	—	(158)	(158)
Appropriation of endowment assets for expenditure	368	(7,123)	(6,755)
Redesignation by donor and other	—	1,050	1,050
Endowment net assets, end of period	<u>\$ 5,670</u>	<u>159,820</u>	<u>165,490</u>

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

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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 4.75% in 2023 and 2022.

(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	
	2023	2022
	(In thousands)	
Due in one year or less	\$ 31,366	23,927
Due after one year through five years	73,931	44,287
Due after five years	85,260	55,045
	190,557	123,259
Less allowance for uncollectible pledges	(5,802)	(3,898)
Less unamortized discount	(35,262)	(23,219)
Pledges receivable, net	149,493	96,142
Split-interest agreements (charitable remainder trusts and other)	21,721	21,812
	\$ 171,214	117,954

Pledges receivable at December 31, 2023 include approximately \$9.4 million restricted for endowments and \$131.5 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 0.26% and 5.56%. The discount rate was determined by the IRS discount rate table based on the pledge amount and 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

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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.

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The Organization received contributions related to split-interest agreements totaling \$0.1 million and \$3.7 million during the years ended December 31, 2023 and 2022, respectively.

		Year ended December 31, 2023			
		Charitable gift annuities	Charitable remainder trusts	Life interest in real estate	Total
		(In thousands)			
Assets:					
Donation and bequests pledged	\$	9,471	3,230	9,020	21,721
Total assets	\$	9,471	3,230	9,020	21,721
Liabilities and net assets:					
Liability to annuitants and other beneficiaries	\$	7,443	462	3,165	11,070
Net assets		2,028	2,768	5,855	10,651
Total liabilities and net assets	\$	9,471	3,230	9,020	21,721
		Year ended December 31, 2022			
		Charitable gift annuities	Charitable remainder trusts	Life interest in real estate	Total
		(In thousands)			
Assets:					
Donation and bequests pledged	\$	9,314	3,478	9,020	21,812
Total assets	\$	9,314	3,478	9,020	21,812
Liabilities and net assets:					
Liability to annuitants and other beneficiaries	\$	6,438	413	3,298	10,149
Net assets		2,876	3,065	5,722	11,663
Total liabilities and net assets	\$	9,314	3,478	9,020	21,812

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(7) Net Assets with Donor Restrictions

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

	December 31	
	2023	2022
	(In thousands)	
Education programs	\$ 22,381	23,071
Women's programs	44,938	41,077
Heart programs	44,219	40,494
Neuro programs	101,091	55,904
Cancer programs	81,712	75,293
Other programs	173,551	153,052
	\$ 467,892	388,891

	December 31	
	2023	2022
	(In thousands)	
Donor-restricted endowments subject to spending policy and appropriation	\$ 172,045	159,820
Perpetual trusts and split-interest agreements	10,651	11,662
Subject to expenditure for specified purposes	153,710	139,674
Subject to passage of time	131,486	77,735
	\$ 467,892	388,891

(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 by donors. The activity for the periods ended are as follows:

	Years ended December 31	
	2023	2022
Purpose restrictions accomplished (redesignated):		
Women's programs	\$ 2,536	3,469
Heart programs	3,216	4,411
Cancer programs	7,247	7,649
Education programs	1,582	1,276
Other programs	15,423	26,372
	\$ 30,004	43,177
Total restrictions released		

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(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, 2023			Total operating expenses and program related grants
	Program expenses	Operating expenses		
	Program related grants	Fund-raising	General and administrative	
Grants to Hoag Memorial Hospital				
Presbyterian and affiliates	\$ 28,907	—	—	28,907
Salaries and benefits	—	10,376	4,883	15,259
Occupancy	—	830	390	1,220
Office expense	—	26	12	38
Purchased services	—	1,583	745	2,328
Professional services	—	454	214	668
Other	—	1,415	666	2,081
	\$ 28,907	14,684	6,910	50,501
	Year ended December 31, 2022			Total operating expenses and program related grants
	Program expenses	Operating expenses		
	Program related grants	Fund-raising	General and administrative	
Grants to Hoag Memorial Hospital				
Presbyterian and affiliates	\$ 40,456	—	—	40,456
Salaries and benefits	—	8,872	3,669	12,541
Occupancy	—	862	364	1,226
Office expense	—	65	22	87
Purchased services	—	3,345	1,147	4,492
Professional services	—	626	262	888
Other	—	4,040	1,201	5,241
	\$ 40,456	17,810	6,665	64,931

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(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 anticipates collecting sufficient revenue to cover general expenditures.

As of December 31, 2023 and 2022, \$304.0 million, or 70%, and \$307.3 million, or 77%, respectively, of the Organization's total investments 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 \$15.9 million and \$13.1 million for the years ended December 31, 2023 and 2022, respectively, with the Hospital for these services which is included in the fundraising and general and administrative expense in the consolidated statements 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 Safe Harbor Non-elective 3% contribution by the Hospital, and an additional discretionary 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, 2023 and April 19, 2024, the date on which the accompanying consolidated financial statements were available to be issued.