



DOERNBECHER CHILDREN'S HOSPITAL FOUNDATION
(A Component Unit of Oregon Health & Science University)

Financial Statements and Required Supplementary Information

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
Doernbecher Children's Hospital Foundation:

We have audited the accompanying financial statements of Doernbecher Children's Hospital Foundation (the Foundation), a component unit of Oregon Health & Science University, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Doernbecher Children's Hospital Foundation as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis, on pages 3 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Portland, Oregon
October 23, 2019

DOERNBECHER CHILDREN'S HOSPITAL FOUNDATION
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Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

This section of the Doernbecher Children's Hospital Foundation (DCHF or the foundation) financial report presents a discussion and analysis of the foundation's financial performance during the fiscal years ended June 30, 2019 and 2018. This discussion has been prepared and approved by management along with the financial statements and related note disclosures, and should be read in conjunction with – and is qualified in its entirety by – the financial statements and notes. The discussion and analysis focuses on current activities, resulting changes, and current known facts.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements provided in this report. The foundation's basic financial statements include the statements of net position; the statements of revenues, expenses, and changes in net position; the statements of cash flows; and the notes to the financial statements.

- The statements of net position and the statements of revenues, expenses, and changes in net position provide information about the activities of the foundation as a whole and present a long-term view of the foundation's finances. The statements of net position present the foundation's assets, liabilities, and deferred inflows with the net among these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the success of fund-raising and investment strategies and the level of program support provided to Oregon Health & Science University (OHSU).
- The statements of revenues, expenses, and changes in net position present financial results for the foundation by separating operating revenues and operating expenses from nonoperating activities and other changes in net position. Evaluating the amount of operating income or loss can help determine if current contributions are keeping pace with program service spending; coupled with the costs of operating the foundation. The section of the report that shows nonoperating activities and other changes in net position quantifies the financial impact of nonexpendable contributions and other activities and transactions that took place during the reporting period. The level of investment income during the reporting period provides an indication of how investment activity is impacting the value of foundation funds held in its investment pools.
- The statements of cash flows present information related to cash inflows and outflows summarized by operating activities, noncapital financing activities, and investing activities. This statement will help to analyze which foundation activities (operating, noncapital financing, or investing) are producing or utilizing cash in the time periods represented in the financial reports.

The financial statements described above can be found on pages 10–12 of this report. The notes to the financial statements can be found on pages 13–32.

Financial Highlights

Total contributions (including nonexpendable donations and life income agreements) to DCHF in fiscal year 2019 totaled \$16.3 million. Contributions for 2019 primarily included new cash gifts of \$11.7 million, bequests of \$2.8 million, and new pledges of \$1.1 million. When compared to the prior year, 2019 contribution levels decreased by \$0.7 million or 4.1%, due primarily to a decrease in bequests, offset by an increase in new cash gifts. Total contributions (including nonexpendable donations and life income agreements) to DCHF in fiscal year 2018 totaled \$17.0 million. Contributions for 2018 primarily included new cash gifts of \$10.7 million, bequests of \$4.5 million, and new pledges of \$1.2 million. When compared to the prior year, 2018 contribution

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levels decreased by \$4.6 million or 21.7%, due primarily to a decrease in new pledges, offset by an increase in bequests.

Program services provided to OHSU for children's health in fiscal year 2019 totaled \$15.5 million. This level of program support is 98.6% higher than the \$7.8 million provided in fiscal year 2018, an increase of \$7.7 million. During 2019, program support for capital projects was increased by \$7.8 million, from \$0.3 million to \$8.1 million, primarily related to construction expenditures for the Rood Family Pavilion. Program services provided to OHSU for children's health in fiscal year 2018 totaled \$7.8 million. This level of program support is 12.0% lower than the \$8.9 million provided in fiscal year 2017, a decrease of \$1.1 million.

Investment performance for DCHF is primarily composed of the investment results of the endowment fund investment pool (endowment fund). Fiscal year 2019 investment returns resulted in a net gain of \$3.8 million. Fiscal year 2018 investment returns resulted in a net gain of \$4.8 million. The 2019 investment performance of the endowment fund, which is a fully diversified investment portfolio, resulted in a 6.9% net investment gain, which exceeded the benchmark return for the portfolio of 6.3%. The 2018 investment performance of the endowment fund resulted in a 9.9% net investment gain, which exceeded the benchmark return for the portfolio of 7.5%. In fiscal year 2019, the fair value of DCHF's endowment fund increased by \$10.1 million or 19.2% and the fair value of the current fund investment pool (current fund) decreased by \$8.5 million or 29.8%. In fiscal year 2018, the fair value of DCHF's endowment fund increased by \$4.4 million or 9.1% and the fair value of the current fund investment pool (current fund) increased by \$7.6 million or 36.9%.

As of June 30, 2019, DCHF had total assets of \$91.3 million, total liabilities of \$2.4 million, deferred inflows of \$2.2 million, and net position of \$86.8 million.

Assets

DCHF's assets primarily consist of cash and cash equivalents, net pledges and estates receivable, and long-term investments. The investments of the foundation are managed and invested by Oregon Health & Science University Foundation (OHSUF). On the statements of net position, assets are classified based on the type of underlying investment as of the date of the statements of net position and considering restrictions on associated assets.

Highlights related to specific asset types include the following:

- Current assets consist of cash and cash equivalents, accrued interest on investments, prepaid expenses, and the current portion of net restricted pledges and estates receivable.

Cash and cash equivalents balances on June 30, 2019 totaled \$2.7 million. Cash and cash equivalents totaled \$3.4 million and \$2.4 million on June 30, 2018 and 2017, respectively.

Pledges and estates receivable, current portion includes the value of outstanding pledges (less an allowance for uncollectible accounts) and the estimated value of estates of which the foundation is a named beneficiary (less an allowance for uncollectible estates receivable). On June 30, 2019, the foundation had net pledges receivable of \$4.1 million and estates receivable of \$0.7 million. The current portion of net pledges and estates receivable is \$2.1 million at June 30, 2019. On June 30, 2018, the foundation had net pledges receivable of \$5.0 million and estates receivable of \$0.7 million. The current

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portion of net pledges and estates receivable is \$1.8 million at June 30, 2018. On June 30, 2017, the foundation had net pledges receivable of \$7.3 million and estates receivable of \$0.5 million. The current portion of net pledges and estates receivable is \$2.7 million at June 30, 2017. The level of pledges and estates receivable has decreased in 2019 compared with the prior year by \$0.9 million, due to payments received on outstanding pledges receivable. The level of pledges and estates receivable has decreased in 2018 compared with the prior year by \$2.1 million, due to payments received on outstanding pledges receivable.

- Noncurrent assets consist of restricted cash and long-term investments, the long-term portion of net restricted pledges receivable (less discount for present value and an allowance for uncollectible amounts) and other receivables.

Long-term investments primarily consist of assets managed and invested by OHSUF, whose investment pools include the current fund and the endowment fund. DCHF is a participant in these pools. DCHF also has invested assets related to life income agreements. Long-term and restricted investments totaled \$82.9 million as of June 30, 2019, an increase of \$2.1 million over the prior fiscal year. During 2019, the DCHF portion of the endowment pool increased by \$10.1 million, and the DCHF portion of the current fund pool decreased by \$8.5 million. Changes in the value of long-term investments during 2019 resulted primarily from new contributions and investment gains, offset by operating expenses. As of June 30, 2018, long-term and restricted investments totaled \$80.8 million, an increase of \$11.1 million from 2017. Changes in the value of long-term investments during 2017 resulted primarily from new contributions and investment gains, offset by program service expenses.

Pledges, noncurrent net of discounts total \$2.7 million at June 30, 2019, \$3.9 million at June 30, 2018 and \$5.1 million at June 30, 2017. For further information on pledges receivable, refer to the information provided above and in note 5.

Total assets were \$91.3 million, \$90.8 million, and \$80.8 million as of June 30, 2019, 2018, and 2017, respectively. The 2019 balance for assets is comparable with 2018. Assets increased in 2018 when compared to 2017 by \$10.0 million, or 12.4%. The increase in total assets during 2018 was related to new contributions received and investment gains in excess of operating expenses.

Liabilities

- Current liabilities consist of accounts payable and accrued liabilities, a significant portion of which is due to OHSU. Current liabilities totaled \$0.7 million on June 30, 2019, \$0.4 million on June 30, 2018, and \$0.6 million on June 30, 2017. The 2019 balance is an increase of \$0.3 million from 2018. The 2018 balance is a decrease of \$0.2 million from 2017. These changes are primarily related to fluctuations in the amount due to OHSU. Fluctuations in the amounts due to OHSU are expected to occur each year based on the timing of reimbursements to OHSU for expenditures of amounts in accordance with donor intent.
- Noncurrent liabilities of \$1.7 million, \$1.8 million, and \$1.8 million at June 30, 2019, 2018, and 2017, respectively, consist of funds held by the foundation that were due to other institutions and the liability for life income agreements.

Total liabilities are equal to approximately 2.6%, 2.4%, and 3.0% of foundation assets as of June 30, 2019, 2018, and 2017, respectively.

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Deferred Inflows

Deferred inflows relate to assets received by the foundation, which will be recognized as revenue in a future reporting period and they consist of the foundation's interest in life income agreements. Deferred inflows totaled \$2.2 million for each of the years ended June 30, 2019, 2018, and 2017.

Net Position

Net position is classified as restricted or unrestricted. Restricted net position is classified as nonexpendable or expendable. Nonexpendable net position is required to be retained in perpetuity. Expendable net position may be spent in the future in accordance with specified donor or other externally imposed restrictions.

Highlights of significant changes in net position are provided below:

- Nonexpendable restricted net position totaled \$30.1 million, \$28.9 million, and \$27.4 million as of June 30, 2019, 2018, and 2017, respectively. The increases of \$1.2 million from 2018 to 2019 and \$1.5 million from 2017 to 2018 resulted primarily from new contributions.
- Expendable restricted net position totaled \$25.5 million, \$29.8 million, and \$26.4 million on June 30, 2019, 2018, and 2017, respectively. This represents a decrease of \$4.3 million in 2019 resulting from program support offset by new contributions and investment gains; and an increase of \$3.4 million in 2018 resulting from new contributions and investment gains offset by program support expenses.
- Unrestricted net position totaled \$31.2 million at June 30, 2019, \$27.7 million at June 30, 2018, and \$22.3 million at June 30, 2017. The increases in 2019 and 2018 are primarily related to a management decision to quasi endow unrestricted estate gifts received, rather than making them available for current spending needs, and investment gains offset by program support provided to OHSU for pediatric priorities and supporting service expenses.
- Overall, as of June 30, 2019, net position totaled \$86.8 million, an increase of \$0.5 million as compared to 2018. As of June 30, 2018, net position totaled \$86.3 million, an increase of \$10.2 million as compared to the 2017 balance of \$76.1 million. The 2019 balance for net position is comparable with 2018. The 2018 increase is primarily related to new contributions and investment gains offset by operating expenses.

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Foundation Summary Schedule of Net Position

	June 30		
	2019	2018	2017
Noncapital assets	\$ 91,349,700	90,752,924	80,765,111
Capital assets	3	3	3
Total assets	<u>\$ 91,349,703</u>	<u>90,752,927</u>	<u>80,765,114</u>
Current liabilities	\$ 669,394	397,083	594,124
Noncurrent liabilities	1,716,755	1,819,076	1,841,889
Total liabilities	<u>\$ 2,386,149</u>	<u>2,216,159</u>	<u>2,436,013</u>
Deferred inflows	\$ 2,193,598	2,214,910	2,183,642
Net position:			
Net investment in capital assets	\$ 3	3	3
Restricted net position	55,592,526	58,636,045	53,846,274
Unrestricted net position	31,177,427	27,685,810	22,299,182
Total net position	<u>\$ 86,769,956</u>	<u>86,321,858</u>	<u>76,145,459</u>

Operating Revenues

Operating revenues for fiscal year 2019 totaled \$15.1 million, compared to \$15.9 million in fiscal year 2018, and \$18.6 million in fiscal year 2017. The primary component of operating revenues was contributions, which for 2019 totaled \$15.0 million. For fiscal year 2019, this represents a decrease in operating revenues of \$0.8 million or 4.9% from 2018 and for fiscal year 2018, an increase of \$2.7 million or 14.9% from 2017.

Total contributions, including nonexpendable contributions for 2019, primarily included new cash gifts of \$11.7 million, new pledges of \$1.1 million, and bequests of \$2.8 million. Total contributions, including nonexpendable contributions for 2018, primarily included new cash gifts of \$10.7 million, new pledges of \$1.2 million, and bequests of \$4.5 million.

Operating Expenses

Program services expense provided to OHSU totaled \$15.5 million in fiscal year 2019, \$7.8 million in fiscal year 2018, and \$8.9 million in fiscal year 2017. The level of support provided in 2019 increased by \$7.7 million as compared to 2018, and the level of support provided in 2018 decreased by \$1.1 million as compared to 2017. During 2019, program support for capital projects increased by \$7.8 million, from \$0.3 million to \$8.1 million, primarily related to construction expenditures for the Rood Family Pavilion. The primary driver for the decline in program service expense during 2018 relates to a management decision to quasi endow unrestricted estate gifts received, rather than making them available for current spending needs.

Supporting services expense totaled \$3.3 million for fiscal year 2019, \$3.1 million for fiscal year 2018, and \$3.2 million for fiscal year 2017. Supporting services expense for 2019 was in line with 2018 and 2017.

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Total operating expenses were \$18.8 million in 2019, \$10.9 million in 2018, and \$12.1 million in 2017. Higher expenses in 2019 were primarily related to increased program services expenditures for construction costs. Lower expenses in 2018 relates to a management decision to quasi endow unrestricted estate gifts received, rather than making them available for current spending needs.

Operating revenues less operating expenses resulted in an operating loss of \$3.7 million in 2019, and an operating income of \$4.9 million in 2018, and \$6.6 million in 2017. During 2019, program services and supporting services expenses exceeded contributions, resulting in an operating loss. During 2018 and 2017, contributions exceeded the level of program services and supporting services expenses, resulting in operating income. An operating loss occurs during times when contributions raised in prior years are used to fund current year programs and projects. The use of gift funds in a period other than when the gift is received occurs frequently and can be caused by a variety of factors. Examples of the types of situations that can cause this include when the receipt of a pledge or estate gift is included as contribution revenue in one year, but funded by the donor and used for program support in a subsequent year; when the use of funds are delayed because the donor's restrictions were not met in the year in which the gift was received; and when program expenses are supported by the endowment spending distribution, which is funded by investment income classified as nonoperating revenue.

Nonoperating Activities

Investment performance for DCHF funds, net of investment management fees, resulted in an investment gain of \$3.8 million in fiscal year 2019, \$4.8 million in fiscal year 2018 and \$6.4 million in fiscal year 2017. The fiscal year 2019 activities reflected a 6.9% gain on the endowment fund, compared to a 9.9% investment gain in 2018, and a 15.7% investment gain in 2017. Endowment investment performance exceeded its total asset benchmark by 0.6% in 2019, by 2.4% in 2018, and by 3.1% in 2017. In 2019, the fair value of the current fund decreased by \$8.5 million (29.8%) primarily due to the payment of construction expenses for the Rood Family Pavilion. In 2018, the fair value of the current fund increased by \$7.6 million (36.9%) primarily due to the receipt of gifts to provide program support to OHSU.

Other nonoperating activities are primarily composed of the \$0.8 million, \$0.6 million, and \$0.6 million in management fees paid to OHSU Foundation for the management of endowment funds during fiscal years 2019, 2018, and 2017, respectively.

Other Changes in Net Position

Other changes in net position consist of nonexpendable donations and life income agreement donations of \$1.3 million in 2019, \$1.2 million in 2018, and \$3.2 million in 2017. Contributions received in 2019 were primarily related to the funding for an endowment supporting Pediatric Cardiology and a Pediatrics professorship. Contributions received in 2018 were primarily related to the funding for an endowment supporting the Pediatric Intensive Care Unit and a Pediatrics professorship.

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Changes in Net Position

In fiscal year 2019, there was an increase in net position of \$0.4 million compared to the increase in net position of \$10.2 million in 2018 and the increase in net position of \$15.4 million in 2017. When comparing the current year performance to the prior years, each year has been impacted differently, with the primary drivers being contributions, program services expense, and net investment income. The change in net position in each of the years resulted from new contributions and investment return, offset by program services expense.

	Years ended June 30		
	2019	2018	2017
Operating revenues:			
Contributions	\$ 14,962,366	15,774,389	18,416,913
Other income	134,466	102,855	231,961
Total operating revenues	<u>15,096,832</u>	<u>15,877,244</u>	<u>18,648,874</u>
Operating expenses:			
Program services	15,488,495	7,799,182	8,860,712
Supporting services	3,312,985	3,128,983	3,203,865
Total operating expenses	<u>18,801,480</u>	<u>10,928,165</u>	<u>12,064,577</u>
Operating (loss) income	(3,704,648)	4,949,079	6,584,297
Investment income, net	3,811,927	4,765,250	6,407,555
Other nonoperating activities	(955,126)	(715,467)	(803,058)
(Loss) income before other changes in net position	(847,847)	8,998,862	12,188,794
Nonexpendable donations	1,295,945	1,177,537	3,225,242
Change in net position	448,098	10,176,399	15,414,036
Beginning net position	<u>86,321,858</u>	<u>76,145,459</u>	<u>60,731,423</u>
Ending net position	<u>\$ 86,769,956</u>	<u>86,321,858</u>	<u>76,145,459</u>

The level of expendable and nonexpendable contributions raised totaled \$16.3 million, \$17.0 million, and \$21.6 million in fiscal years 2019, 2018, and 2017, respectively. The foundation provided program services support to OHSU of \$15.5 million in 2019, \$7.8 million in 2018, and \$8.9 million in 2017.

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Statements of Net Position

June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 2,747,062	3,357,406
Accrued interest on investments	577	667
Prepaid expenses	125,957	96,010
Pledges and estates receivable, current portion, net	<u>2,093,599</u>	<u>1,838,306</u>
Total current assets	<u>4,967,195</u>	<u>5,292,389</u>
Noncurrent assets:		
Restricted assets:		
Cash and long-term investments	54,685,024	54,728,300
Pledges, noncurrent, net	<u>2,724,256</u>	<u>3,888,515</u>
Total restricted assets	57,409,280	58,616,815
Long-term investments	28,234,902	26,088,748
Other receivables, net	738,323	754,972
Capital assets, net	<u>3</u>	<u>3</u>
Total noncurrent assets	<u>86,382,508</u>	<u>85,460,538</u>
Total assets	<u>\$ 91,349,703</u>	<u>90,752,927</u>
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,093	17,146
Due to OHSU	<u>662,301</u>	<u>379,937</u>
Total current liabilities	<u>669,394</u>	<u>397,083</u>
Noncurrent liabilities:		
Due to other institutions	209,282	203,097
Liability for life income agreements	<u>1,507,473</u>	<u>1,615,979</u>
Total noncurrent liabilities	<u>1,716,755</u>	<u>1,819,076</u>
Total liabilities	<u>2,386,149</u>	<u>2,216,159</u>
Deferred inflows:		
Life income agreements	<u>2,193,598</u>	<u>2,214,910</u>
Total deferred inflows	<u>2,193,598</u>	<u>2,214,910</u>
Net position:		
Net investment in capital assets	3	3
Restricted for:		
Nonexpendable:		
Research	3,612,546	3,583,996
Academic support	7,658,230	7,128,260
Instruction	13,378,968	12,849,793
Clinical support	450,368	429,118
Public service	4,709,880	4,603,131
Other	<u>301,488</u>	<u>276,078</u>
Total nonexpendable restricted net position	<u>30,111,480</u>	<u>28,870,376</u>
Expendable:		
Research	5,719,822	4,534,408
Academic support	3,004,256	2,399,263
Instruction	5,273,421	4,898,789
Capital projects and planning	3,641,252	10,690,455
Clinical support	3,936,526	3,809,253
Public service	1,617,262	1,212,178
Other	<u>2,288,507</u>	<u>2,221,323</u>
Total expendable restricted net position	<u>25,481,046</u>	<u>29,765,669</u>
Total restricted net position	<u>55,592,526</u>	<u>58,636,045</u>
Unrestricted net position	<u>31,177,427</u>	<u>27,685,810</u>
Total net position	<u>86,769,956</u>	<u>86,321,858</u>
Total liabilities, deferred inflows, and net position	<u>\$ 91,349,703</u>	<u>90,752,927</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Contributions:		
Donations	\$ 14,919,443	15,774,333
Life income agreements	42,923	56
Total contributions	14,962,366	15,774,389
Other income	134,466	102,855
Total operating revenues	15,096,832	15,877,244
Operating expenses:		
Program services:		
Research	1,179,340	1,399,634
Academic support	3,917,802	365,759
Instruction	543,584	435,602
Institutional support	166	193
Public service	356,461	493,507
Capital projects and planning	8,083,289	260,002
Clinical support	1,405,953	4,803,615
Other	1,900	40,870
Total program services	15,488,495	7,799,182
Supporting services:		
Services and supplies	3,312,985	3,128,983
Total supporting services	3,312,985	3,128,983
Total operating expenses	18,801,480	10,928,165
Operating (loss) income	(3,704,648)	4,949,079
Nonoperating activities:		
Investment income, net of investment fees of \$502,505 and \$530,847 in 2019 and 2018, respectively	3,811,927	4,765,250
Other nonoperating activities	(955,126)	(715,467)
Total nonoperating activities	2,856,801	4,049,783
(Loss) income before other changes in net position	(847,847)	8,998,862
Other changes in net position:		
Nonexpendable donations	1,295,945	1,177,537
Total other changes in net position	1,295,945	1,177,537
Change in net position	448,098	10,176,399
Net position, beginning of year	86,321,858	76,145,459
Net position, end of year	\$ 86,769,956	86,321,858

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Donations	\$ 14,872,425	17,714,007
Life income agreement contributions	42,923	10,473
Other receipts	134,466	102,855
Services and supplies expenses	(3,341,157)	(3,216,667)
Program services expenses	(15,022,076)	(7,926,957)
Net cash (used) provided by operating activities	(3,313,419)	6,683,711
Cash flows from noncapital financing activities:		
Annuity payments to beneficiaries	(173,619)	(175,131)
Nonexpendable donations and life income agreements	1,085,763	1,040,183
Other noncapital financing activities	(953,023)	(714,279)
Net cash (used) provided by noncapital financing activities	(40,879)	150,773
Cash flows from investing activities:		
Purchases of investments	(17,402,603)	(17,189,806)
Proceeds from sales and maturities of investments	20,360,814	11,452,503
Interest and dividend income	114,630	112,562
Investment income on life income funds	173,618	261,780
Investment fees	(502,505)	(530,847)
Net cash provided (used) by investing activities	2,743,954	(5,893,808)
Net (decrease) increase in cash and cash equivalents	(610,344)	940,676
Cash and cash equivalents, beginning of year	3,357,406	2,416,730
Cash and cash equivalents, end of year	\$ 2,747,062	3,357,406
Reconciliation of operating (loss) income to net cash (used) provided by operating activities:		
Operating (loss) income	\$ (3,704,648)	4,949,079
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:		
Noncash contributions	(760,101)	(122,032)
Decrease (increase) in pledges and estates receivable	908,966	2,101,223
(Increase) decrease in prepaid expenses	(29,947)	(57,935)
Increase in obligations for life income agreements	—	4,203
(Decrease) increase in accounts payable and other liabilities	272,311	(197,041)
Increase in deferred inflows	—	6,214
Net cash provided by operating activities	\$ (3,313,419)	6,683,711
Schedule of noncash noncapital financing and investing activities:		
Noncash nonexpendable donations and life income agreements	\$ 222,003	266,807
Net change in fair value of investments	119,044	2,098,341

See accompanying notes to financial statements.

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(1) Organization

Doernbecher Children's Hospital Foundation (DCHF or the foundation) is an Oregon nonprofit corporation established in 1944 promoting an interest in and support for Doernbecher Children's Hospital (DCH), a functional unit of Oregon Health & Science University (OHSU) specializing in healthcare services to children. DCHF is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The foundation is a blended component unit of OHSU for financial reporting purposes.

Since 1991, DCHF and Oregon Health & Science University Foundation (OHSUF) have worked together to integrate their administration and fund-raising activities. This agreement was modified in July 2001 when DCHF entered into a service agreement with OHSUF, which provides for the consolidation of the staff of both foundations, DCHF and OHSUF, under one employer, which is OHSUF. This agreement delegates the oversight and management of all staff services necessary to operate DCHF's development programs to OHSUF. Under the agreement, OHSUF provides management and staff resources, space, and other support services to DCHF including program management, gift processing, donor program support, planned giving program support, communications, office services, and accounting and computer support. OHSUF also provides investment management services to DCHF under a separate agreement as discussed in note 7.

(2) Summary of Significant Accounting Policies

The foundation prepares its financial statements in accordance with U.S. generally accepted accounting principles as required for a governmental entity and, therefore, follows the accounting rules as promulgated by the Governmental Accounting Standards Board (GASB).

The foundation reports as a special-purpose government engaged in business-type activities whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Net position is classified into four net position categories, in accordance with donor-imposed restrictions.

- *Net investment in capital assets* carries the depreciated value of capital purchases, net of related debt (if applicable).
- *Nonexpendable restricted net position* carries externally imposed restrictions that never expire.
- *Expendable restricted net position* carries externally imposed restrictions that expire in the future.
- *Unrestricted net position* carries no externally imposed restrictions.

Investment income earned on donor-restricted endowment funds, discussed in notes 2(f) and 4, in excess of the annual spending distribution is accounted for in the expendable restricted net position category.

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The foundation first applies restricted resources to an expense where an expense is incurred for a purpose for which both restricted and unrestricted net positions are available.

(a) Operating Revenues

The foundation includes unrestricted and expendable restricted contributions and other income from sales, services, and fund-raising activities in operating revenues. These revenues are key components of the operations of the foundation.

(b) Operating Expenses

The foundation includes program services provided to OHSU and supporting services of operating the foundation in operating expenses.

(c) Operating Income or (Loss) and Changes in Net Position

The statements of revenues, expenses, and changes in net position include operating income (loss). Changes in net position, which are excluded from operating income (loss) include net investment income (loss), nonexpendable donations and life income agreements, and other nonoperating activities.

(d) Revenue Recognition

Contributions are voluntary, expendable, nonreciprocal transfers of assets, and may be made in the form of cash, securities, real property, personal property, materials and supplies, equipment, services, and unconditional promises to give those items in the future. Contributions, including estates receivable (substantiated undistributed estates) and promises to give, are recorded as revenue at fair value once all eligibility requirements are met and the pledge is verifiable, and are accounted for in the appropriate net position category based upon donor-imposed restrictions. Pledges and estates receivable with nonexpendable donor-imposed restrictions are not recognized in the statements of revenues, expenses, and changes in net position until the contribution is received.

Pledges are generally received within seven years of the date of the original commitment. The majority of estates are received within one year. Pledges and estates receivable, less an allowance for uncollectible amounts, are discounted to their present value using rates that range from 0.71% to 4.88%.

(e) Investments

Investments are stated at fair value based on the underlying investments of the pool. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national securities exchanges. Alternative investments, which are not readily marketable and lack publicly available market values, are carried at estimated fair value as provided by the investment managers. The foundation or its discretionary investment partner reviews and evaluates the values provided by its investment managers and considers the valuation methods and assumptions used in determining the fair value of the alternative investments to be reasonable. Those estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains and losses and the unrealized gains and losses on those investments, is shown in the

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statements of revenues, expenses, and changes in net position as investment income, net of investment fees.

(f) Endowments

The endowment corpus is accounted for in the restricted, nonexpendable net position category and reported on the statements of net position as restricted long-term investments. The foundation's spending policy for endowment funds is determined by the Executive Committee of the OHSUF Board of Trustees (OHSUF Executive Committee), on behalf of DCHF, and is calculated using a weighted average methodology comprised of an eight quarter moving average of the fair value of the endowment fund adjusted for inflation; and of the previous year's actual spending distribution adjusted for inflation. The resulting effective spending rate payout is then banded to be between 4.0% and 5.5% each year. The OHSUF Executive Committee, on behalf of DCHF, authorized a 4.5% distribution rate to calculate the effective spending rate in the years ended June 30, 2019 and 2018. Spending distributions of \$2.4 million and \$2.2 million were made into foundation endowment income accounts to be utilized in support of DCH during the fiscal years ended June 30, 2019 and 2018, respectively.

The management and investment of donor-restricted endowment funds by OHSUF are subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the state of Oregon in January 2008.

(g) Life Income Agreements

The foundation has been named as a remainder beneficiary for various life income agreements, including charitable remainder unitrusts, charitable remainder trust annuities, charitable gift annuities, and life estate agreements. Life income agreements provide for contractual payments to designated income beneficiaries for a specific period, after which the remaining principal and interest revert to the designated remainder beneficiaries. When the foundation is the trustee for life income agreements, the foundation records the fair value of the assets, the actuarially determined liability, and the difference between the asset and liability as a contribution during the period in which the eligibility requirements are met. For those life income agreements where the foundation is not the trustee, the foundation records a contribution in the period in which the donation is received if the foundation is not designated as the remainder beneficiary of the trust. For those life income agreements where the foundation is not the trustee, but is designated as an irrevocable remainder beneficiary, the foundation records a receivable for the fair value of the remainder interest assets discounted to present value and a deferred inflow during the period in which the trust is established.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect reported amounts of assets and liabilities at the date of the financial statements and the reported income and expense during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance rates for uncollectible pledges and estates, discount rates for pledges, estimates used in determining fair value of investments, and actuarial assumptions in the liability for life income agreements.

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(3) Cash and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents include bank demand deposits, petty cash, and money market accounts with original maturities of three months or less at the date of purchase, that are not considered restricted long-term investments. For valuation purposes, cash and cash equivalents have observable inputs. The Federal Depository Insurance Commission (FDIC) provides a limited amount of protection for cash deposits, typically the first \$250,000 per account. The foundation does not include in its investment policy any requirement to collateralize deposits that exceed FDIC insured amounts. Cash and cash equivalents including those held in restricted assets were \$4.6 million and \$4.8 million at June 30, 2019 and 2018, respectively.

(b) Investments

DCHF assets are pooled with OHSUF assets for investment purposes. Through its Investment Committee, the Board of Trustees of OHSUF is responsible for the management of the foundation's investments. A DCHF Trustee holds one position on the OHSUF Investment Committee. The OHSUF Investment Committee establishes investment policies for all funds and selects investment managers for the endowment fund and the current fund, on behalf of DCHF. The Director of Finance and Investments in consultation with the CFO – Vice President of Finance for OHSUF directs the implementation of actions designated by the OHSUF Investment Committee.

(4) Investment Pools and Distribution Policies

The foundation maintains two primary internal investment pools. The current funds investment pool is the repository for funds available for current operations. The current fund pool is comprised of four separate investment vehicles with varying objectives based on the liquidity needs of the foundation. These investment vehicles include operating cash used for daily liquidity needs; a reserve fund (C/F reserve) and a short duration 1-5 year separately managed account (C/F 1-5 year) that are used for liquidity needs of less than one year; and a quasi endowment fund (C/F endowment) that invests liquidity needs of greater than one year in the endowment portfolio, discussed below. At June 30, 2019 and 2018, the fair value of the foundation's investments in the current fund was \$19.9 million and \$28.4 million, respectively.

The endowment fund investment pool is the repository for funds from restricted, nonexpendable contributions where the principal amount cannot be used but a spending distribution, described below, can be used for the designated purpose. The endowment fund also holds quasi-endowment funds, which have been designated as endowment by the DCHF Board of Trustees. Assets of the endowment fund investment pool are held by OHSUF, on behalf of DCHF, in the OHSU Foundation Endowment Fund, L.P. and managed by a discretionary investment partner under the terms of a partnership agreement and subject to the investment policies established by the OHSUF Investment Committee. The holdings of this investment pool are contained in a fund of one investment vehicle structure and a description of the underlying securities within the fund is included in the following tables of this note. Under normal circumstances, OHSUF may withdraw funds from the partnership account by providing notice to the discretionary investment partner of up to 45 days. The withdrawal would then be paid within 30 days following the notice period. Distributions are effective as of the end of a calendar month unless otherwise agreed to by the partners.

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Endowment accounts receive spending distributions subject to the spending policy which provides a predetermined amount of total return that can be spent for purposes designated by the donor. All interest, dividends, and changes in fair value on donor-restricted endowment funds are allocated to the appropriate restricted net position classification as specified by the donor at the time of receipt. All expendable income restricted by the donor is carried as restricted, expendable net position until such time as the restriction has been met. At June 30, 2019 and 2018, the fair value of the foundation's investments in the endowment fund was \$62.5 million and \$52.5 million, respectively. Of these amounts, \$4.1 million and \$3.9 million as of June 30, 2019 and 2018, respectively, represent unspent earnings in excess of donor restricted original contributions that are available for future designation to expenditure by the Board of Trustees.

At June 30, 2018, accumulated loss of \$100 related to endowment accounts with market value below corpus was reflected in nonexpendable restricted net position. There were no endowment accounts with market value below corpus at June 30, 2019.

The foundation also has investments with a fair value of \$3.2 million and \$3.3 million at June 30, 2019 and 2018, respectively, related to its individually managed life income agreements. These investments are included in various separately managed individual charitable trusts and life estate agreements, in reinsured annuity contracts, or in the charitable gift annuity pool.

Investment policies are established based on the investment objectives of the portfolio. Each portfolio has its own asset allocation guideline, which has been authorized by the OHSUF Executive Committee; on behalf of DCHF. The objective for the current fund is to provide a reliable source of liquidity to meet short-term working capital needs. The current fund may invest in cash, cash equivalents, fixed income securities, equity mutual funds and ETFs, and quasi endowment within the endowment fund. The duration of the C/F 1-5 year portfolio shall be within a range of 75% to 125% of the Barclay's 1-5 Year Government/Credit Bond Index. The objective for the endowment fund is to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. The endowment fund may invest in cash and cash equivalents, fixed-income securities, U.S. and non-U.S. equity securities, and other alternative investments. The charitable gift annuity pool seeks to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. The charitable gift annuity pool may invest in cash and cash equivalents, U.S. and non-U.S. equities, fixed-income, and real estate. Charitable trusts are managed to provide for the distribution of a stated income payment while attempting to achieve reasonable expected total returns. Charitable trust investment objectives and asset allocation guidelines are determined based on the individual circumstances of each trust account. Allowable investments for charitable trusts include cash and cash equivalents, U.S. and non-U.S. equities, fixed-income, real estate, and commodities.

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(a) Fair Value of Investments

Investments at June 30, 2019 and 2018 are as follows:

<u>Asset classes</u>	<u>2019</u>	<u>2018</u>
Domestic equities	\$ 4,780,995	4,781,776
Non-U.S. equities	9,679,578	7,389,798
Global equities	2,809,899	4,016,376
Venture capital/private equity	21,226,585	16,173,674
Marketable alternative investments	12,600,438	12,426,121
Real estate investments and contracts	2,872,118	1,969,738
Mutual funds – nonfixed income	2,207,154	2,202,175
Annuity contracts	74,791	78,533
Insurance policies	71,932	71,972
Fixed income	26,596,436	31,706,885
	<u>\$ 82,919,926</u>	<u>80,817,048</u>

The methods used to determine the fair value of financial instruments reflect market participant objectives and are based on the application of a valuation hierarchy that prioritizes observable market inputs over unobservable inputs. The hierarchy is based on the reliability of inputs as follows:

- Level 1 – Valuation is based on quoted prices for identical financial instruments in active markets. OHSUF does not adjust the quoted price for Level 1 financial instruments.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing models or other model-based valuation techniques using observable inputs.
- Level 3 – Certain types of financial instruments are classified as Level 3 within the valuation hierarchy because these financial instruments trade infrequently and, therefore, have little or no price transparency.

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The following table presents a categorization, based on the foregoing valuation hierarchy, of DCHF's financial instruments measured at fair value as of June 30, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Domestic equities	\$ 2,913,022	—	—	2,913,022
Non-U.S. equities	3,753,483	—	—	3,753,483
Global equities	966,499	—	—	966,499
Venture capital/private equity	—	—	527,958	527,958
Real estate investments and contracts	73,202	—	325,955	399,157
Mutual funds – nonfixed income	2,207,154	—	—	2,207,154
Annuity contracts	—	74,791	—	74,791
Insurance policies	—	—	71,932	71,932
Fixed income:				
U.S. government securities	—	6,351,396	—	6,351,396
U.S. agency securities	—	1,015,165	—	1,015,165
Corporate bonds	—	8,117,458	—	8,117,458
Asset-backed securities and collateralized mortgage obligations	—	1,903,148	—	1,903,148
Mutual funds – fixed income only	8,779,293	317,787	—	9,097,080
Bank debt	—	37,065	—	37,065
Certificates of deposit	—	75,124	—	75,124
Subtotal	<u>\$ 18,692,653</u>	<u>17,891,934</u>	<u>925,845</u>	37,510,432
Investments measured using NAV per share or its equivalent:				
Domestic equities				1,867,973
Non-U.S. equities				5,926,095
Global equities				1,843,400
Venture capital/private equity				20,698,627
Marketable alternative investments				12,600,438
Real estate investments and contracts				<u>2,472,961</u>
Total investments				<u>\$ 82,919,926</u>

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The following table presents a categorization, based on the foregoing valuation hierarchy, of DCHF's financial instruments measured at fair value as of June 30, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Domestic equities	\$ 2,311,275	—	—	2,311,275
Non-U.S. equities	1,392,716	—	—	1,392,716
Global equities	1,328,839	—	—	1,328,839
Venture capital/private equity	—	—	2,734,644	2,734,644
Real estate investments and contracts	75,257	—	379,606	454,863
Mutual funds – nonfixed income	2,202,175	—	—	2,202,175
Annuity contracts	—	78,533	—	78,533
Insurance policies	—	—	71,972	71,972
Fixed income:				
U.S. government securities	—	9,254,559	—	9,254,559
U.S. agency securities	—	1,110,310	—	1,110,310
Corporate bonds	—	13,657,109	—	13,657,109
Asset-backed securities and collateralized mortgage obligations	—	1,297,646	—	1,297,646
Municipal bonds	—	420,513	—	420,513
Mutual funds – fixed income only	5,449,273	349,084	—	5,798,357
Bank debt	—	94,291	—	94,291
Certificates of deposit	—	74,100	—	74,100
Subtotal	<u>\$ 12,759,535</u>	<u>26,336,145</u>	<u>3,186,222</u>	42,281,902
Investments measured using NAV per share or its equivalent:				
Domestic equities				2,470,501
Non-U.S. equities				5,997,082
Global equities				2,687,537
Venture capital/private equity				13,439,030
Marketable alternative investments				12,426,121
Real estate investments and contracts				<u>1,514,875</u>
Total investments				<u>\$ 80,817,048</u>

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There were no transfers of financial instruments between Level 1 and Level 2 classifications either in 2019 or 2018. Changes in Level 3 financial instruments are as follows:

	Year ended June 30	
	2019	2018
Balance at beginning of year	\$ 3,186,222	417,585
Net realized (losses) gains	(2,652)	15,067
Net unrealized (losses) gains	(31,990)	33,076
Purchases	530,570	2,739,868
Sales	(21,661)	(19,374)
Transfers to NAV per share, or its equivalent, classification	(2,734,644)	—
Balance at end of year	\$ 925,845	3,186,222

Net realized and unrealized gains and losses on financial instruments classified as Level 3 are reported in the statements of revenues, expenses, and changes in net position as investment income, net of investment fees.

The foundation initially records secondary purchases held within the OHSU Foundation Endowment Fund, L.P. at the purchase price for the transaction and then uses a practical expedient beginning with the first financial statement period following the close of the transaction.

DCHF uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by DCHF for certain financial instruments is the NAV per share. Valuations provided by fund administrators for these financial instruments consider variables such as the financial performance of underlying investments, recent sales prices, and other pertinent information. The valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as completed or pending third-party transactions in the underlying security and changes in financial results, data or cash flows. Management or its discretionary investment partner reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

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The following table presents information for investments where either the NAV per share or its equivalent was used to value the investments as of June 30, 2019 and 2018:

	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Domestic equities	Quarterly	3–90 days
Non-U.S. equities	Weekly to every four years	3–90 days
Global equities	Quarterly	3–90 days
Venture capital/private equity	Event-driven	N/A
Marketable alternative investments	Monthly to annually	15–95 days
Real estate investments and contracts	Event-driven	N/A

Domestic Equities, Non-U.S. Equities, Global Equities, and Natural Resources funds represent investments in equities, both U.S. and international, and may include investments in developed and emerging markets.

(i) *Alternative Investments*

Alternative investments are defined under U.S. generally accepted accounting principles as those investments without readily determinable fair values. These investment vehicles differ by fund and can be in the form of limited partnerships, limited liability corporations, investment trusts, institutional funds, and offshore investment funds and are included primarily in the venture capital/private equity, real estate investments and contracts, and marketable alternative investment categories in the tables above. Alternative investment funds can contain certain types of financial instruments, including, among others, derivatives, futures, forward contracts, options, swaps, and securities sold not yet purchased, intended to hedge against changes in the fair value of investments or enhance potential risk-adjusted returns. The investment styles employed by the underlying managers include, but are not limited to, private equity, venture capital, buyout, absolute return, diversified arbitrage, merger arbitrage, event driven, commodities, real estate, energy, domestic long/short, global long/short, market neutral, and distressed.

These financial instruments involve varying degrees of risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of full portfolio composition. Because some of these investments are not readily marketable, their estimated values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Alternative investments can be less liquid than other investments. When liquidity limitations are imposed on these alternative investments, the types of restrictions can include, but are not limited to, lockup provisions whereby the foundation is unable to redeem shares or invested capital of an investment for a period of time, usually one year or more after the initial investment for marketable

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alternative funds and ten to twelve years for private equity and venture capital funds, notice provisions whereby the foundation is required to give notice, ranging up to 95 days, to transact a redemption of an investment after the expiration of any lockup provisions, and the establishment of gates that further limit the timing and amount of a requested fund distribution beyond the specified lock-up provisions.

(b) Interest Rate Risk and Credit Risk

As of June 30, 2019, the foundation had the following fixed-income investments disclosed by maturity in the current fund, endowment fund, and life income agreement portfolios stated at fair value:

Investment type	Maturity	Endowment	Current funds	Other	Total
U.S. government securities	Less than 1 year	\$ 54,906	—	9,945	64,851
	1–5 years	6,142	5,968,716	—	5,974,858
	6–10 years	27,049	197,558	—	224,607
	More than 10 years	87,080	—	—	87,080
U.S. agency securities	1–5 years	—	13,192	—	13,192
	6–10 years	—	59,867	—	59,867
	More than 10 years	—	942,106	—	942,106
Corporate bonds	Less than 1 year	32,125	1,177,410	—	1,209,535
	1–5 years	213,548	6,380,065	—	6,593,613
	6–10 years	174,249	—	—	174,249
	More than 10 years	92,359	47,702	—	140,061
Asset-backed securities and collateralized mortgage obligations	1–5 years	34,921	536,288	—	571,209
	6–10 years	47,299	—	—	47,299
	More than 10 years	1,119,535	165,105	—	1,284,640
Mutual funds – fixed income only	Less than 1 year	1,773,202	1,492,100	299,332	3,564,634
	1–5 years	2,679,045	—	421,068	3,100,113
	6–10 years	1,251,298	118,527	252,859	1,622,684
	More than 10 years	809,649	—	—	809,649
Bank debt	1–5 years	33,077	—	—	33,077
	6–10 years	3,988	—	—	3,988
Certificate of deposit	Less than 1 year	—	—	24,966	24,966
	1–5 years	—	—	50,158	50,158
Total		\$ <u>8,439,472</u>	<u>17,098,636</u>	<u>1,058,328</u>	<u>26,596,436</u>

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As of June 30, 2018, the foundation had the following fixed-income investments disclosed by maturity in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

Investment type	Maturity	Endowment	Current funds	Other	Total
U.S. government securities	Less than 1 year	\$ 217,864	—	14,966	232,830
	1–5 years	10,080	8,933,639	—	8,943,719
	6–10 years	8,207	—	—	8,207
	More than 10 years	69,803	—	—	69,803
U.S. agency securities	1–5 years	—	21,686	—	21,686
	6–10 years	—	489,406	—	489,406
	More than 10 years	—	599,218	—	599,218
Corporate bonds	Less than 1 year	22,154	1,767,609	—	1,789,763
	1–5 years	216,866	11,382,741	—	11,599,607
	6–10 years	157,396	—	—	157,396
	More than 10 years	110,343	—	—	110,343
Asset-backed securities and collateralized mortgage obligations	Less than 1 year	2,483	—	—	2,483
	1–5 years	10,172	375,856	—	386,028
	6–10 years	22,188	—	—	22,188
	More than 10 years	681,784	205,163	—	886,947
Municipal bonds	1–5 years	—	420,513	—	420,513
Mutual funds – fixed income only	Less than 1 year	1,418,822	598,793	235,808	2,253,423
	1–5 years	1,182,893	—	433,492	1,616,385
	6–10 years	927,394	139,745	260,816	1,327,955
	More than 10 years	600,594	—	—	600,594
Bank debt	1–5 years	75,025	—	—	75,025
	6–10 years	19,266	—	—	19,266
Certificate of deposit	Less than 1 year	—	—	24,928	24,928
	1–5 years	—	—	49,172	49,172
Total		<u>\$ 5,753,334</u>	<u>24,934,369</u>	<u>1,019,182</u>	<u>31,706,885</u>

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As of June 30, 2019, the foundation had the following fixed-income investments disclosed by credit quality in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

Investment type	Credit quality	Endowment	Current funds	Other	Total	
U.S. government securities	AAA	\$ 98,518	6,166,274	9,945	6,274,737	
	AA	76,659	—	—	76,659	
U.S. agency securities	AAA	—	1,015,165	—	1,015,165	
Corporate bonds	AAA	14,199	47,703	—	61,902	
	AA	10,446	1,036,346	—	1,046,792	
	A	105,830	3,631,703	—	3,737,533	
	BBB	248,676	2,889,425	—	3,138,101	
	BB	71,830	—	—	71,830	
	B	21,038	—	—	21,038	
	Below B	2,792	—	—	2,792	
	Not rated	37,470	—	—	37,470	
Asset-backed securities and collateralized mortgage obligations	AAA	593,247	701,393	—	1,294,640	
	AA	269,658	—	—	269,658	
	A	46,451	—	—	46,451	
	BBB	17,274	—	—	17,274	
	BB	11,027	—	—	11,027	
	B	3,814	—	—	3,814	
	Below B	94,756	—	—	94,756	
	Not rated	165,528	—	—	165,528	
Mutual funds – fixed income only	A1/P1	6,424	—	—	6,424	
	Below A1/P1	632	—	—	632	
	AAA	4,604,632	353,724	594,948	5,553,304	
	AA	258,967	199,035	80,728	538,730	
	A	375,722	783,046	95,917	1,254,685	
	BBB	532,226	267,663	102,799	902,688	
	BB	173,101	2,335	28,764	204,200	
	B	221,794	984	23,128	245,906	
	Below B	156,446	3,781	13,391	173,618	
	Not rated	183,250	59	33,584	216,893	
	Bank debt	BBB	16,382	—	—	16,382
		BB	11,910	—	—	11,910
B		7,605	—	—	7,605	
Below B		481	—	—	481	
Not rated		687	—	—	687	
Certificate of deposit	Not rated	—	—	75,124	75,124	
Total		<u>\$ 8,439,472</u>	<u>17,098,636</u>	<u>1,058,328</u>	<u>26,596,436</u>	

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As of June 30, 2018, the foundation had the following fixed-income investments disclosed by credit quality in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

Investment type	Credit quality	Endowment	Current funds	Other	Total
U.S. government securities	AAA	\$ 36,809	8,933,639	14,966	8,985,414
	AA	88,090	—	—	88,090
	B	181,055	—	—	181,055
U.S. agency securities	AAA	—	1,110,310	—	1,110,310
Corporate bonds	AAA	16,535	49,070	—	65,605
	AA	21,700	1,465,340	—	1,487,040
	A	77,138	6,888,600	—	6,965,738
	BBB	278,892	4,747,339	—	5,026,231
	BB	76,244	—	—	76,244
	B	18,738	—	—	18,738
	Below B	2,117	—	—	2,117
	Not rated	15,396	—	—	15,396
Asset-backed securities and collateralized mortgage obligations	AAA	401,121	581,019	—	982,140
	AA	134,920	—	—	134,920
	A	37,876	—	—	37,876
	BBB	9,015	—	—	9,015
	BB	2,648	—	—	2,648
	B	2,882	—	—	2,882
	Below B	78,992	—	—	78,992
	Not rated	49,173	—	—	49,173
Municipal bonds	AAA	—	243,047	—	243,047
	A	—	177,466	—	177,466
Mutual funds – fixed income only	A1/P1	42,798	—	—	42,798
	Below A1/P1	10,700	—	—	10,700
	AAA	2,776,021	299,602	471,740	3,547,363
	AA	206,474	76,244	108,821	391,539
	A	258,084	265,389	117,799	641,272
	BBB	346,978	88,443	113,800	549,221
	BB	140,266	3,508	27,352	171,126
	B	147,838	797	35,425	184,060
	Below B	109,575	4,514	19,680	133,769
	Not rated	90,968	42	35,499	126,509
Bank debt	BBB	19,736	—	—	19,736
	BB	43,895	—	—	43,895
	B	30,284	—	—	30,284
	Below B	297	—	—	297
Certificate of deposit	Not rated	79	—	—	79
	Not rated	—	—	74,100	74,100
Total		\$ 5,753,334	24,934,369	1,019,182	31,706,885

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Mutual fund credit rating and maturity information are based on the average duration and ratings of the underlying fixed-income securities.

The foundation holds \$0.6 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and \$1.3 million of collateralized mortgage obligations as of June 30, 2019. The foundation holds \$0.4 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and \$0.9 million of collateralized mortgage obligations as of June 30, 2018. These investments were obtained in part to provide an attractive yield while limiting credit risk and to increase diversification compared to other high quality debt instruments. These securities are carried at fair value. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of the foundation's investment portfolio.

(c) Credit Risk

The investment policy of the short duration 1-5 year separately managed account requires minimum ratings or better from Standard & Poor's, Moody's, or Fitch as follows:

	<u>Minimum Standard & Poor's rating</u>	<u>Minimum Moody's rating</u>	<u>Minimum Fitch rating</u>
U.S. and foreign corporate indebtedness	BBB- or A-2	Baa3 or P-2	BBB- or F-2
Certificates of deposit	BBB- or A-2	Baa3 or P-2	BBB- or F-2
Foreign government, foreign agency or supranational organization debt	A or A-1	A2 or P-1	A or F-1
Agency mortgage-backed securities	AAA	Aaa	AAA
Commercial mortgage-backed securities	AAA	Aaa	AAA
Asset-backed securities	AAA	Aaa	AAA
Municipal bonds	A	A2	A

At the time of purchase, securities must be rated by at least two of the three rating agencies. If the security is rated by all three agencies, the middle rating will apply. If only two ratings are available, then the lower rating will be used.

If the credit quality of a holding in the current fund declines so that it is below the level required as stated above, a decision will be made by the OHSUF Investment Committee to hold or sell the security.

Investments in the charitable gift annuity pool shall have a minimum credit quality rating of Baa/BBB or an average credit rating of Baa/BBB for mutual funds or pooled funds and a minimum rating of A-1/P-1 for investments in commercial paper. The charitable trust investments generally have a minimum credit quality rating in investment-grade Baa/BBB bond investments and a minimum rating of A-1/P-1 for investments in commercial paper. However, an individual trust may hold up to 9% of the portfolio in below-investment-grade investments.

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(d) Concentration of Credit Risk

The investment policy of the short duration 1-5 year separately managed account limits investments in any issue or issuer as follows:

	Maximum concentration
U.S. and foreign corporate indebtedness	No more than 3% per issuer
Certificates of deposit	No more than 5% per issuer
Foreign government, foreign agency or supranational organization debt	No more than 5% per issuer
Agency mortgage-backed securities	No more than 15% per cusip
Commercial mortgage-backed securities	No more than 5% per cusip
Asset-backed securities	No more than 5% per cusip
Municipal bonds	No more than 5% per cusip

The investment policy relating to the charitable gift annuity pool limit investments in any one issue to a maximum of 5%, except for issues of the U.S. government and its agencies or diversified mutual funds, which may be held without limitation. The investment policy for charitable trusts limits investments in any one issue to a maximum of 5%, except for issues of the U.S. government and its agencies or diversified mutual funds.

As of June 30, 2019 and 2018, the foundation held no individual investments or investments with an issuer that have balances in excess of the limits described above.

(e) Foreign Currency Risk

The investment policies permit investments in international equity and other asset classes, which can include foreign currency exposure. The endowment fund allows for investments in international equities and non-U.S. dollar-denominated bonds. The current fund allows up to 20% of the portfolio to be invested in non-U.S. sovereign or supranational issues. The charitable gift annuity pool investment policy allows up to 30% of the portfolio to be invested in international equities. The charitable trust investment policy allows up to 32% of the portfolio to be invested in international equities, based on the individual circumstances of each trust account.

The following table details the fair value of foreign-denominated securities by currency type at June 30:

Foreign currency	Value (U.S. dollar)	
	2019	2018
British pound sterling	\$ 595,864	296,826
Canadian dollar	501,247	408,662
Euro	1,199,601	245,001
Total	\$ 2,296,712	950,489

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(f) Commitments

As of June 30, 2019 and 2018, OHSUF, on behalf of DCHF, had total accumulated commitments to nonmarketable private alternative investments, marketable private investments, private natural resources investments, and private real estate investments of \$62.1 million and \$47.5 million, respectively. As of June 30, 2019 and 2018, OHSUF, on behalf of DCHF, had funded \$46.6 million and \$33.2 million, respectively, of the total amount committed to these investments. These investments are structured as limited partnerships and include investments in U.S. and non-U.S. private equity, venture capital, natural resources, distressed securities, real estate, and energy.

(5) Restricted Pledges and Estates Receivable

The foundation had the following restricted pledges and estates receivable as of June 30, 2019 and 2018:

	2019	2018
Pledges maturing within 1 year	\$ 1,581,585	1,285,441
Pledges maturing within 2–8 years	3,150,930	4,496,867
	4,732,515	5,782,308
Less allowance for uncollectible pledges	(459,751)	(564,731)
	4,272,764	5,217,577
Less discount for net present value (rates of 0.71% to 4.88%)	(125,081)	(172,165)
Total net pledges receivable	4,147,683	5,045,412
Estates receivable	705,444	717,273
Less allowance for uncollectible estates receivable	(35,272)	(35,864)
Total net estates receivable	670,172	681,409
Total restricted pledges and estates receivable, net	\$ 4,817,855	5,726,821

(6) Trusts Held by Others

The foundation is the named beneficiary of six trusts held by outside trustees at each of the years ended June 30, 2019 and 2018, respectively. The fair value reported to management of trust assets held by others was \$2.1 million and \$2.2 million as of June 30, 2019 and 2018, respectively. Trust distributions from these assets are recorded as contributions as they occur. Trust distributions of \$0.1 million were recorded as contributions during both of the fiscal years 2019 and 2018.

(7) Related-Party Transactions

The foundation has entered into a service agreement with OHSUF. Under the terms of the agreement, OHSUF provides management and staff resources, space, and other support services to DCHF in the areas of program management, gift processing, donor program support, planned giving program support, communications, office services, accounting, and computer support. DCHF has recorded \$2.5 million and

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\$2.4 million related to this service agreement in services and supplies in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2019 and 2018, respectively.

OHSUF provides investment management services and administration services to the foundation for its current funds. OHSUF retains 100% of the net earnings or losses on these funds. The C/F 1-5 year fund had net earnings 5.5% for the year ended June 30, 2019 and a return of 0.0% for the year ended June 30, 2018. The C/F reserve fund had net earnings of 3.3% for the year ended June 30, 2019 and 1.5% for the year ended June 30, 2018. The endowment fund, which is also used as the investment vehicle for the C/F endowment, had net earnings of 6.9% for the year ended June 30, 2019 and net earnings of 9.9% for the year ended June 30, 2018. The foundation retains ownership of the current funds.

OHSUF provides investment management and administration services to the foundation for its endowment funds. OHSUF's fee is currently 1.6% of the three-year moving average of the fair value of the fund. The foundation retains ownership of these funds. The foundation has recorded payments to OHSUF of \$0.8 million and \$0.6 million related to the investment management and administration services of its endowment funds for the years ended June 30, 2019 and 2018, respectively. The payments are recorded as other nonoperating activities on the statements of revenues, expenses, and changes in net position and as other noncapital financing activities on the statements of cash flows.

(8) Life Income Funds

Life income agreements established during the years ended June 30, 2019 and 2018 are as follows at the date of donation:

	<u>2019</u>			<u>2018</u>		
	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>
Charitable remainder unitrusts	2	\$ 3,571	1,302	2	\$ 2,198	1,327
Charitable gift annuities	1	35,000	18,940	1	10,000	4,024
	<u>3</u>	<u>\$ 38,571</u>	<u>20,242</u>	<u>3</u>	<u>\$ 12,198</u>	<u>5,351</u>

Total life income instruments held at June 30, 2019 and 2018 are as follows:

	<u>2019</u>			<u>2018</u>		
	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>
Charitable remainder unitrusts	14	\$ 2,559,285	930,092	14	\$ 2,620,561	991,397
Charitable gift annuities	18	837,124	370,113	23	873,675	391,477
Life estate agreements	1	304,663	207,268	1	336,653	233,105
	<u>33</u>	<u>\$ 3,701,072</u>	<u>1,507,473</u>	<u>38</u>	<u>\$ 3,830,889</u>	<u>1,615,979</u>

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Two charitable gift annuities, included above, with a total gift value of \$0.2 million, have been reinsured with insurance carriers in order to reduce liability exposure. Under the reinsurance contracts, the insurance carrier pays the future beneficiary payments. To the extent the insurance carriers are unable to perform under the contract, the foundation would be responsible for payment.

Changes in DCHF's liability for life income agreements during the fiscal years ended June 30, 2019 and 2018 are summarized below:

	2018 balance	Increases	Decreases	2019 balance
Charitable remainder unitrusts	\$ 991,397	64,553	(125,858)	930,092
Charitable gift annuities	391,477	52,093	(73,457)	370,113
Life estate agreements	233,105	—	(25,837)	207,268
Total	\$ 1,615,979	116,646	(225,152)	1,507,473

	2017 balance	Increases	Decreases	2018 balance
Charitable remainder unitrusts	\$ 1,027,728	166,745	(203,076)	991,397
Charitable gift annuities	408,925	33,154	(50,602)	391,477
Life estate agreements	213,782	19,323	—	233,105
Total	\$ 1,650,435	219,222	(253,678)	1,615,979

Increases or decreases may result from actuarial adjustments, distributions to beneficiaries, new gifts, and termination of an agreement.

(9) Unrestricted Net Position

Designations for unrestricted and Board-designated net position for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Funds for current operations	\$ 7,582,674	11,107,684
Designated for specific purposes	1,600,927	3,211,583
Designated for endowment	21,993,826	13,366,543
Total unrestricted net position	\$ 31,177,427	27,685,810

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(10) Supporting Services

Supporting services, which included administrative and fund-raising expenses, totaled approximately \$3.3 million and \$3.1 million for the years ended June 30, 2019 and 2018, respectively.

The foundation's cost of insuring for risks in the areas of general liability, employee medical, directors and officers, and other coverage is included in supporting services, and is covered by third-party insurance. The foundation coordinates insurance coverage with OHSU's Risk Management. As a result, the coverage limits for Directors and Officers and Employment Practices Liability insurance coverage are \$1 million. Any additional claims between \$1 million and \$30 million will be covered under OHSU's policy.

(11) Subsequent Events

The foundation has evaluated subsequent events through October 23, 2019, the date on which the financial statements were issued, noting none.