



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

Financial Statements and Required Supplementary Information

June 30, 2020 and 2019

(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, 2020 and 2019, 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, which collectively comprise the Foundation's basic financial statements for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2020 and 2019, 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 Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 28, 2020

DOERNBECHER CHILDREN'S HOSPITAL FOUNDATION

(A Component Unit of Oregon Health & Science University)

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

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, 2020 and 2019. 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 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 2020 totaled \$15.6 million. Contributions for 2020 primarily included new cash gifts of \$12.2 million, bequests of \$2.0 million, and new pledges of \$0.5 million. Contribution levels decreased in 2020 by \$0.7 million or 4.2% as compared to 2019, due primarily to a decrease in bequests. 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.

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Contribution levels decreased in 2019 by \$0.7 million or 4.1% as compared to 2018, due primarily to a decrease in bequests, offset by an increase in new cash gifts.

Program services provided to OHSU for children's health in fiscal year 2020 totaled \$10.6 million. This level of program support was 31.7% lower than the \$15.5 million provided in fiscal year 2019, a decrease of \$4.9 million. During 2020, program support for capital projects decreased by \$6.1 million, from \$8.1 million to \$2.0 million, primarily related to a decline in construction expenditures for the Rood Family Pavilion. Program services provided to OHSU for children's health in fiscal year 2019 totaled \$15.5 million. This level of program support was 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 increased by \$7.8 million, from \$0.3 million to \$8.1 million, primarily related to construction expenditures for the Rood Family Pavilion.

Investment performance for DCHF is primarily composed of the investment results of the endowment fund investment pool (endowment fund). Fiscal year 2020 investment returns resulted in a net gain of \$1.1 million. Fiscal year 2019 investment returns resulted in a net gain of \$3.8 million. The 2020 investment performance of the endowment fund, which is a fully diversified investment portfolio, resulted in a 1.9% net investment gain, which trailed the benchmark return for the portfolio of 3.8%. The 2019 investment performance of the endowment fund resulted in a 6.9% net investment gain, which exceeded the benchmark return for the portfolio of 6.3%. In fiscal year 2020, the fair value of DCHF's endowment fund increased by \$1.9 million or 3.1% and the fair value of the current fund investment pool (current fund) increased by \$2.0 million or 10.2%. 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 decreased by \$8.5 million or 29.8%.

As of June 30, 2020, DCHF had total assets of \$92.7 million, total liabilities of \$2.3 million, deferred inflows of \$1.9 million, and net position of \$88.5 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, 2020 totaled \$4.1 million. Cash and cash equivalents totaled \$2.7 million and \$3.4 million on June 30, 2019 and 2018, 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, 2020, the foundation had net pledges receivable of \$2.6 million and no estates receivable. The current portion of net

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pledges receivable is \$1.1 million at June 30, 2020. 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 portion of net pledges and estates receivable is \$1.8 million at June 30, 2018. The level of pledges and estates receivable has decreased in 2020 compared with the prior year by \$2.2 million, due to payments received on outstanding pledges receivable. 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.

- 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 cash and investments totaled \$85.2 million as of June 30, 2020, an increase of \$2.3 million over the prior fiscal year. During 2020, the DCHF portion of the endowment pool increased by \$1.9 million, and the DCHF portion of the current fund pool increased by \$2.0 million. Changes in the value of long-term investments during 2020 resulted primarily from new contributions, offset by operating expenses. As of June 30, 2019, long-term and restricted cash and investments totaled \$82.9 million, an increase of \$2.1 million from 2018. Changes in the value of long-term investments during 2018 resulted primarily from new contributions and investment gains, offset by program service expenses.

Pledges, noncurrent net of discounts total \$1.5 million at June 30, 2020, \$2.7 million at June 30, 2019 and \$3.9 million at June 30, 2018. For further information on pledges receivable, refer to the information provided above and in note 5.

Total assets were \$92.7 million, \$91.3 million, and \$90.8 million as of June 30, 2020, 2019, and 2018, respectively. The 2020 balance for assets is comparable with 2019 and 2018.

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, 2020, \$0.7 million on June 30, 2019, and \$0.4 million on June 30, 2018. The 2020 balance is comparable with 2019. The 2019 balance is an increase of \$0.3 million from 2018. 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 \$1.6 million, \$1.7 million, and \$1.8 million at June 30, 2020, 2019, and 2018, respectively, consist of funds held by the foundation that were due to other institutions and the liability for life income agreements.

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Total liabilities are equal to approximately 2.5%, 2.6%, and 2.4% of foundation total assets as of June 30, 2020, 2019, and 2018, respectively.

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 \$1.9 million at June 30, 2020 and \$2.2 million for each of the years ended June 30, 2019, and 2018.

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 \$31.7 million, \$30.1 million, and \$28.9 million as of June 30, 2020, 2019, and 2018, respectively. The increases of \$1.6 million from 2019 to 2020 and \$1.2 million from 2018 to 2019 resulted primarily from new contributions.
- Expendable restricted net position totaled \$21.7 million, \$25.5 million, and \$29.8 million on June 30, 2020, 2019, and 2018, respectively. This represents a decrease of \$3.8 million in 2020 resulting from program support offset by new contributions; and a decrease of \$4.3 million in 2019 resulting from program support offset by new contributions and investment gains.
- Unrestricted net position totaled \$35.0 million at June 30, 2020, \$31.2 million at June 30, 2019, and \$27.7 million at June 30, 2018. The increase in 2020 is related to new contributions offset by program support provided to OHSU for pediatric priorities and supporting service expenses; and a management decision to quasi endow unrestricted estate gifts received, rather than making them available for current spending needs. The increase in 2019 is 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, 2020, net position totaled \$88.5 million, an increase of \$1.7 million as compared to 2019. As of June 30, 2019, net position totaled \$86.8 million, an increase of \$0.5 million as compared to 2018. The 2020 balance for net position is comparable with 2019 and 2018.

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Foundation Summary Schedule of Net Position

	June 30		
	2020	2019	2018
Noncapital assets	\$ 92,737,457	91,349,700	90,752,924
Capital assets	3	3	3
Total assets	<u>\$ 92,737,460</u>	<u>91,349,703</u>	<u>90,752,927</u>
Current liabilities	\$ 708,182	669,394	397,083
Noncurrent liabilities	<u>1,598,848</u>	<u>1,716,755</u>	<u>1,819,076</u>
Total liabilities	<u>\$ 2,307,030</u>	<u>2,386,149</u>	<u>2,216,159</u>
Deferred inflows	\$ 1,922,856	2,193,598	2,214,910
Net position:			
Net investment in capital assets	\$ 3	3	3
Restricted net position	53,484,129	55,592,526	58,636,045
Unrestricted net position	<u>35,023,442</u>	<u>31,177,427</u>	<u>27,685,810</u>
Total net position	<u>\$ 88,507,574</u>	<u>86,769,956</u>	<u>86,321,858</u>

Operating Revenues

Operating revenues for fiscal year 2020 totaled \$14.1 million, compared to \$15.1 million in fiscal year 2019, and \$15.9 million in fiscal year 2018. The primary component of operating revenues was contributions, which for 2020 totaled \$13.9 million. Operating revenues decreased in fiscal year 2020 by \$1.0 million or 6.9% from 2019 and for fiscal year 2019, there was a decrease of \$0.8 million or 4.9% from 2018.

Total contributions, including nonexpendable contributions for 2020, primarily included new cash gifts of \$12.2 million, bequests of \$2.0 million, and new pledges of \$0.7 million. Total contributions, including nonexpendable contributions for 2019, primarily included new cash gifts of \$11.7 million, bequests of \$2.8 million, and new pledges of \$1.1 million.

Operating Expenses

Program services expense provided to OHSU totaled \$10.6 million in fiscal year 2020, \$15.5 million in fiscal year 2019, and \$7.8 million in fiscal year 2018. The level of support provided in 2020 decreased by \$4.9 million as compared to 2019, and the level of support provided in 2019 increased by \$7.7 million as compared to 2018. During 2020, program support for capital projects decreased by \$6.1 million, from \$8.1 million to \$2.0 million, primarily related to construction expenditures for the Rood Family Pavilion. During 2019, program support for capital projects increased by \$7.8 million primarily related to construction expenditures for the Rood Family Pavilion.

Supporting services expense totaled \$3.4 million for fiscal year 2020, \$3.3 million for fiscal year 2019, and \$3.1 million for fiscal year 2018. Supporting services expense for 2020 was in line with 2019 and 2018.

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Total operating expenses were \$14.0 million in 2020, \$18.8 million in 2019, and \$10.9 million in 2018. The primary driver for lower expenses in 2020 and higher expenses in 2019 were construction costs.

Operating revenues less operating expenses resulted in an operating gain of \$47.8 thousand in 2020, an operating loss of \$3.7 million in 2019, and an operating income of \$4.9 million in 2018. During 2020 and 2018, contributions exceeded program services and supporting services expenses, resulting in an operating loss. During 2019, program services and supporting services expenses exceeded contributions, 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 \$1.1 million in fiscal year 2020, \$3.8 million in fiscal year 2019 and \$4.8 million in fiscal year 2018. The fiscal year 2020 activities reflected a 1.9% gain on the endowment fund, compared to a 6.9% investment gain in 2019, and a 9.9% investment gain in 2018. Endowment investment performance trailed its total asset benchmark by 1.9% in 2020 and exceeded its total asset benchmark by 0.6% in 2019, and by 2.4% in 2018. In 2020, the fair value of the current fund increased by \$2.0 million (10.2%) primarily due to a higher level of cash held at June 30, 2020 as compared to June 30, 2019. 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.

Other nonoperating activities are primarily composed of the \$0.9 million, \$0.8 million, and \$0.6 million in management fees paid to OHSU Foundation for the management of endowment funds during fiscal years 2020, 2019, and 2018, respectively.

Other Changes in Net Position

Other changes in net position consist of nonexpendable donations and life income agreement donations of \$1.6 million in 2020, \$1.3 million in 2019, and \$1.2 million in 2018. Contributions received in 2020 were primarily related to the funding for an endowment to provide FTE support for a social worker assigned to the Pediatric Intensive Care Unit to address family needs and to fund costs associated with providing for families acute needs. Contributions received in 2019 were primarily related to the funding for an endowment supporting Pediatric Cardiology and a Pediatrics professorship.

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Changes in Net Position

In fiscal year 2020, there was an increase in net position of \$1.7 million compared to the increase in net position of \$0.4 million in 2019 and the increase in net position of \$10.2 million in 2018. 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		
	2020	2019	2018
Operating revenues:			
Contributions	\$ 13,936,337	14,962,366	15,774,389
Other income	115,164	134,466	102,855
Total operating revenues	<u>14,051,501</u>	<u>15,096,832</u>	<u>15,877,244</u>
Operating expenses:			
Program services	10,572,855	15,488,495	7,799,182
Supporting services	3,430,847	3,312,985	3,128,983
Total operating expenses	<u>14,003,702</u>	<u>18,801,480</u>	<u>10,928,165</u>
Operating income (loss)	47,799	(3,704,648)	4,949,079
Investment income, net	1,121,749	3,811,927	4,765,250
Other nonoperating activities	(1,070,027)	(955,126)	(715,467)
Income (loss) before other changes in net position	99,521	(847,847)	8,998,862
Nonexpendable donations	1,638,097	1,295,945	1,177,537
Change in net position	1,737,618	448,098	10,176,399
Beginning net position	<u>86,769,956</u>	<u>86,321,858</u>	<u>76,145,459</u>
Ending net position	<u>\$ 88,507,574</u>	<u>86,769,956</u>	<u>86,321,858</u>

The level of expendable and nonexpendable contributions raised totaled \$15.6 million, \$16.3 million, and \$17.0 million in fiscal years 2020, 2019, and 2018, respectively. The foundation provided program services support to OHSU of \$10.6 million in 2020, \$15.5 million in 2019, and \$7.8 million in 2018.

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Statements of Net Position

June 30, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 4,075,953	2,747,062
Accrued interest on investments	527	577
Prepaid expenses	132,256	125,957
Pledges and estates receivable, current portion, net	1,146,209	2,093,599
Total current assets	<u>5,354,945</u>	<u>4,967,195</u>
Noncurrent assets:		
Restricted assets:		
Cash and long-term investments	54,370,845	54,685,024
Pledges, noncurrent, net	1,488,778	2,724,256
Total restricted assets	<u>55,859,623</u>	<u>57,409,280</u>
Long-term investments	30,830,020	28,234,902
Other receivables, net	692,869	738,323
Capital assets, net	3	3
Total noncurrent assets	<u>87,382,515</u>	<u>86,382,508</u>
Total assets	<u>\$ 92,737,460</u>	<u>91,349,703</u>
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,221	7,093
Due to OHSU	697,961	662,301
Total current liabilities	<u>708,182</u>	<u>669,394</u>
Noncurrent liabilities:		
Due to other institutions	208,967	209,282
Liability for life income agreements	1,389,881	1,507,473
Total noncurrent liabilities	<u>1,598,848</u>	<u>1,716,755</u>
Total liabilities	<u>2,307,030</u>	<u>2,386,149</u>
Deferred inflows:		
Life income agreements	1,922,856	2,193,598
Total deferred inflows	<u>1,922,856</u>	<u>2,193,598</u>
Net position:		
Net investment in capital assets	3	3
Restricted for:		
Nonexpendable:		
Research	3,639,396	3,612,546
Academic support	7,894,873	7,658,230
Instruction	13,704,295	13,378,968
Clinical support	1,468,949	450,368
Public service	4,799,685	4,709,880
Other	240,106	301,488
Total nonexpendable restricted net position	<u>31,747,304</u>	<u>30,111,480</u>
Expendable:		
Research	5,198,982	5,719,822
Academic support	2,997,363	3,004,256
Instruction	4,614,796	5,273,421
Capital projects and planning	3,519,253	3,641,252
Clinical support	3,815,520	3,936,526
Public service	1,258,184	1,617,262
Other	332,727	2,288,507
Total expendable restricted net position	<u>21,736,825</u>	<u>25,481,046</u>
Total restricted net position	<u>53,484,129</u>	<u>55,592,526</u>
Unrestricted net position	<u>35,023,442</u>	<u>31,177,427</u>
Total net position	<u>88,507,574</u>	<u>86,769,956</u>
Total liabilities, deferred inflows, and net position	<u>\$ 92,737,460</u>	<u>91,349,703</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Contributions:		
Donations	\$ 13,813,811	14,919,443
Life income agreements	122,526	42,923
Total contributions	13,936,337	14,962,366
Other income	115,164	134,466
Total operating revenues	14,051,501	15,096,832
Operating expenses:		
Program services:		
Research	1,638,111	1,179,340
Academic support	3,955,141	3,917,802
Instruction	395,812	543,584
Public service	697,201	356,461
Capital projects and planning	1,954,091	8,083,289
Clinical support	1,931,188	1,405,953
Other	1,311	2,066
Total program services	10,572,855	15,488,495
Supporting services:		
Services and supplies	3,430,847	3,312,985
Total supporting services	3,430,847	3,312,985
Total operating expenses	14,003,702	18,801,480
Operating income (loss)	47,799	(3,704,648)
Nonoperating activities:		
Investment income, net of investment fees of \$534,487 and \$502,505 in 2020 and 2019, respectively	1,121,749	3,811,927
Other nonoperating activities	(1,070,027)	(955,126)
Total nonoperating activities	51,722	2,856,801
Income (loss) before other changes in net position	99,521	(847,847)
Other changes in net position:		
Nonexpendable donations	1,576,258	1,295,945
Nonexpendable life income agreement donations	61,839	—
Total other changes in net position	1,638,097	1,295,945
Change in net position	1,737,618	448,098
Net position, beginning of year	86,769,956	86,321,858
Net position, end of year	\$ 88,507,574	86,769,956

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Donations	\$ 15,044,898	14,872,425
Life income agreement contributions	122,526	42,923
Other receipts	115,164	134,466
Services and supplies expenses	(3,441,662)	(3,341,157)
Program services expenses	(10,242,623)	(15,022,076)
	<u>1,598,303</u>	<u>(3,313,419)</u>
Net cash provided (used) by operating activities		
Cash flows from noncapital financing activities:		
Annuity payments to beneficiaries	(154,348)	(173,619)
Nonexpendable donations and life income agreements	1,314,093	1,085,763
Other noncapital financing activities	(1,068,775)	(953,023)
	<u>90,970</u>	<u>(40,879)</u>
Net cash provided (used) by noncapital financing activities		
Cash flows from investing activities:		
Purchases of investments	(12,560,806)	(17,402,603)
Proceeds from sales and maturities of investments	12,495,781	20,360,814
Interest and dividend income	84,780	114,630
Investment income on life income funds	154,350	173,618
Investment fees	(534,487)	(502,505)
	<u>(360,382)</u>	<u>2,743,954</u>
Net cash (used) provided by investing activities		
Net increase (decrease) in cash and cash equivalents	1,328,891	(610,344)
Cash and cash equivalents, beginning of year	<u>2,747,062</u>	<u>3,357,406</u>
Cash and cash equivalents, end of year	<u>\$ 4,075,953</u>	<u>2,747,062</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 47,799	(3,704,648)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Noncash contributions	(664,853)	(760,101)
Decrease in pledges and estates receivable	2,182,868	908,966
Increase in prepaid expenses	(6,299)	(29,947)
Increase in accounts payable and other liabilities	38,788	272,311
	<u>1,598,303</u>	<u>(3,313,419)</u>
Net cash provided (used) by operating activities		
Schedule of noncash noncapital financing and investing activities:		
Noncash nonexpendable donations and life income agreements	\$ 58,827	222,003
Net change in fair value of investments	(1,917,281)	119,044

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, 2020 and 2019. Spending distributions of \$2.8 million and \$2.4 million were made into foundation endowment income accounts to be utilized in support of DCH during the fiscal years ended June 30, 2020 and 2019, 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 deferred inflow 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 allowances for uncollectible pledges and estates receivable, 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 \$7.6 million and \$4.6 million at June 30, 2020 and 2019, 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, 2020 and 2019, the fair value of the foundation's investments in the current fund was \$22.0 million and \$19.9 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, 2020 and 2019, the fair value of the foundation's investments in the endowment fund was \$64.5 million and \$62.5 million, respectively. Of these amounts, \$2.8 million and \$4.1 million as of June 30, 2020 and 2019, 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, 2020, accumulated loss of \$13.5 thousand 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 \$2.8 million and \$3.2 million at June 30, 2020 and 2019, 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, 2020 and 2019 are as follows:

<u>Asset classes</u>	<u>2020</u>	<u>2019</u>
Domestic equities	\$ 2,740,522	4,780,995
Non-U.S. equities	7,984,337	9,679,578
Global equities	2,672,445	2,809,899
Venture capital/private equity	25,460,937	21,226,585
Marketable alternative investments	15,332,524	12,600,438
Real estate investments and contracts	3,141,238	2,872,118
Mutual funds – nonfixed income	448,131	2,207,154
Annuity contracts	70,707	74,791
Insurance policies	73,949	71,932
Fixed income	<u>27,276,075</u>	<u>26,596,436</u>
	<u>\$ 85,200,865</u>	<u>82,919,926</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, 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Domestic equities	\$ 721,144	—	—	721,144
Non-U.S. equities	1,998,409	—	—	1,998,409
Global equities	887,328	—	—	887,328
Venture capital/private equity	—	—	948,152	948,152
Real estate investments and contracts	51,219	—	350,101	401,320
Mutual funds – nonfixed income	448,131	—	—	448,131
Annuity contracts	—	70,707	—	70,707
Insurance policies	—	—	73,949	73,949
Fixed income:				
U.S. government securities	—	3,856,842	—	3,856,842
U.S. agency securities	—	2,599,486	—	2,599,486
Corporate bonds	—	9,200,221	—	9,200,221
Asset-backed securities and collateralized mortgage obligations	—	1,755,680	—	1,755,680
Municipal bonds	—	12,312	—	12,312
Mutual funds – fixed income only	9,725,465	—	—	9,725,465
Bank debt	—	33,509	—	33,509
Certificates of deposit	—	92,560	—	92,560
Subtotal	<u>\$ 13,831,696</u>	<u>17,621,317</u>	<u>1,372,202</u>	32,825,215
Investments measured using NAV per share or its equivalent:				
Domestic equities				2,019,378
Non-U.S. equities				5,985,928
Global equities				1,785,117
Venture capital/private equity				24,512,785
Marketable alternative investments				15,332,524
Real estate investments and contracts				<u>2,739,918</u>
Total investments				<u>\$ 85,200,865</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, 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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There were no transfers of financial instruments between Level 1 and Level 2 classifications either in 2020 or 2019. Changes in Level 3 financial instruments are as follows:

	Year ended June 30	
	2020	2019
Balance at beginning of year	\$ 925,845	3,186,222
Net realized gains (losses)	2,017	(2,652)
Net unrealized gains (losses)	42,739	(31,990)
Purchases	948,153	530,570
Sales	(48,594)	(21,661)
Contributions	30,000	—
Transfers to NAV per share, or its equivalent, classification	(527,958)	(2,734,644)
Balance at end of year	\$ 1,372,202	925,845

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, 2020 and 2019:

	<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	15–90 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 90 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 lockup provisions.

(b) Interest Rate Risk and Credit Risk

As of June 30, 2020, 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	Life income	Total
U.S. government securities	Less than 1 year	\$ 56,270	—	—	56,270
	1–5 years	—	3,742,502	—	3,742,502
	6–10 years	25,057	—	—	25,057
	More than 10 years	33,013	—	—	33,013
U.S. agency securities	1–5 years	—	11,892	—	11,892
	6–10 years	—	532,291	—	532,291
	More than 10 years	—	2,055,303	—	2,055,303
Corporate bonds	Less than 1 year	16,077	938,623	—	954,700
	1–5 years	193,356	7,798,572	—	7,991,928
	6–10 years	154,066	—	—	154,066
	More than 10 years	99,527	—	—	99,527
Asset-backed securities and collateralized mortgage obligations	Less than 1 year	3,641	61,542	—	65,183
	1–5 years	62,022	441,088	—	503,110
	6–10 years	142,353	—	—	142,353
	More than 10 years	974,321	70,713	—	1,045,034
Municipal bonds	6–10 years	9,671	—	—	9,671
	More than 10 years	2,641	—	—	2,641
Mutual funds – fixed income only	Less than 1 year	3,488,124	1,980,376	109,725	5,578,225
	1–5 years	1,605,303	—	379,114	1,984,417
	6–10 years	842,544	192,196	269,810	1,304,550
	More than 10 years	858,273	—	—	858,273
Bank debt	1–5 years	25,739	—	—	25,739
	6–10 years	7,770	—	—	7,770
Certificate of deposit	Less than 1 year	—	—	30,151	30,151
	1–5 years	—	—	62,409	62,409
Total		<u>\$ 8,599,768</u>	<u>17,825,098</u>	<u>851,209</u>	<u>27,276,075</u>

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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:

<u>Investment type</u>	<u>Maturity</u>	<u>Endowment</u>	<u>Current funds</u>	<u>Life income</u>	<u>Total</u>
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, 2020, 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	Life income	Total
U.S. government securities	AAA	\$ 77,688	3,742,502	—	3,820,190
	AA	36,652	—	—	36,652
U.S. agency securities	AAA	—	2,599,486	—	2,599,486
Corporate bonds	AAA	2,935	—	—	2,935
	AA	13,037	567,091	—	580,128
	A	74,046	4,014,484	—	4,088,530
	BBB	204,093	4,155,620	—	4,359,713
	BB	102,445	—	—	102,445
	B	38,293	—	—	38,293
	Below B	6,151	—	—	6,151
	Not rated	22,026	—	—	22,026
Asset-backed securities and collateralized mortgage obligations	AAA	809,572	573,343	—	1,382,915
	AA	77,513	—	—	77,513
	A	48,512	—	—	48,512
	BBB	15,985	—	—	15,985
	BB	7,009	—	—	7,009
	B	6,909	—	—	6,909
	Below B	97,112	—	—	97,112
	Not rated	119,725	—	—	119,725
Municipal bonds	AA	1,923	—	—	1,923
	A	718	—	—	718
	BBB	6,131	—	—	6,131
	BB	3,540	—	—	3,540
Mutual funds – fixed income only	AAA	4,799,566	756,784	382,879	5,939,229
	AA	195,972	212,335	81,339	489,646
	A	349,616	821,167	103,414	1,274,197
	BBB	596,555	369,582	124,638	1,090,775
	BB	253,344	5,631	20,968	279,943
	B	299,634	1,903	12,550	314,087
	Below B	183,757	5,170	9,722	198,649
Not rated	115,800	—	23,139	138,939	
Bank debt	BBB	5,392	—	—	5,392
	BB	12,289	—	—	12,289
	B	14,856	—	—	14,856
	Below B	972	—	—	972
Certificate of deposit	Not rated	—	—	92,560	92,560
Total		<u>\$ 8,599,768</u>	<u>17,825,098</u>	<u>851,209</u>	<u>27,276,075</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	Life income	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		\$ 8,439,472	17,098,636	1,058,328	26,596,436	

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 \$1.2 million of collateralized mortgage obligations as of

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June 30, 2020. 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. 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 and 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, 2020 and 2019, 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:

	Value (U.S. dollar)	
Foreign currency	2020	2019
British pound sterling	\$ 715,027	595,864
Canadian dollar	550,405	501,247
Euro	905,042	1,199,601
Total	\$ 2,170,474	2,296,712

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(f) Commitments

As of June 30, 2020 and 2019, 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 \$73.8 million and \$62.1 million, respectively. As of June 30, 2020 and 2019, OHSUF, on behalf of DCHF, had funded \$58.4 million and \$46.6 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, 2020 and 2019:

	2020	2019
Pledges maturing within 1 year	\$ 1,191,535	1,581,585
Pledges maturing within 2–8 years	1,645,967	3,150,930
	2,837,502	4,732,515
Less allowance for uncollectible pledges	(135,875)	(459,751)
	2,701,627	4,272,764
Less discount for net present value (rates of 0.71% to 4.88%)	(80,890)	(125,081)
Total net pledges receivable	2,620,737	4,147,683
Estates receivable	15,000	705,444
Less allowance for uncollectible estates receivable	(750)	(35,272)
Total net estates receivable	14,250	670,172
Total restricted pledges and estates receivable, net	\$ 2,634,987	4,817,855

(6) Trusts Held by Others

The foundation is the named beneficiary of five trusts held by outside trustees at June 30, 2020 and six trusts held by outside trustees at June 30, 2019. The fair value reported to management of trust assets held by others was \$0.8 million and \$2.1 million as of June 30, 2020 and 2019, 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 2020 and 2019.

(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 \$2.6 million and

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\$2.5 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, 2020 and 2019, 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 of 5.8% for the year ended June 30, 2020 and 5.5% for the year ended June 30, 2019. The C/F reserve fund had net earnings of 2.5% for the year ended June 30, 2020 and 3.3% for the year ended June 30, 2019. The endowment fund, which is also used as the investment vehicle for the C/F endowment, had net earnings of 1.9% for the year ended June 30, 2020 and net earnings of 6.9% for the year ended June 30, 2019. 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 \$0.9 million and \$0.8 million related to the investment management and administration services of its endowment funds for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 are as follows at the date of donation:

	2020			2019		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	2	\$ 2,295	1,249	2	\$ 3,571	1,302
Charitable gift annuities	—	—	—	1	35,000	18,940
	<u>2</u>	<u>\$ 2,295</u>	<u>1,249</u>	<u>3</u>	<u>\$ 38,571</u>	<u>20,242</u>

Total life income instruments held at June 30, 2020 and 2019 are as follows:

	2020			2019		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	11	\$ 2,161,691	809,196	14	\$ 2,559,285	930,092
Charitable gift annuities	17	803,644	348,634	18	837,124	370,113
Life estate agreements	1	347,402	232,051	1	304,663	207,268
	<u>29</u>	<u>\$ 3,312,737</u>	<u>1,389,881</u>	<u>33</u>	<u>\$ 3,701,072</u>	<u>1,507,473</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, 2020 and 2019 are summarized below:

	2019 balance	Increases	Decreases	2020 balance
Charitable remainder unitrusts	\$ 930,092	27,339	(148,234)	809,197
Charitable gift annuities	370,113	29,221	(50,700)	348,634
Life estate agreements	207,268	24,782	—	232,050
Total	\$ 1,507,473	81,342	(198,934)	1,389,881

	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

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, 2020 and 2019 are as follows:

	2020	2019
Funds for current operations	\$ 8,956,150	7,582,674
Designated for specific purposes	2,223,093	1,600,927
Designated for endowment	23,844,199	21,993,826
Total unrestricted net position	\$ 35,023,442	31,177,427

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(10) Supporting Services

Supporting services, which included administrative and fund-raising expenses, totaled approximately \$3.4 million and \$3.3 million for the years ended June 30, 2020 and 2019, 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) Planned Merger with OHSU Foundation

On June 11, 2020, the Board to Trustees of OHSU Foundation and Doernbecher Children's Hospital Foundation voted to merge. Following the completion of the merger, OHSUF shall continue as the surviving corporation and the separate existence of the DCHF legal entity shall cease. The merger will be effective on the date that the Articles of Merger are filed with the Attorney General, State of Oregon; which is anticipated to be December 31, 2020.

(12) COVID-19 Pandemic

In December 2019, a strain of coronavirus (COVID-19) was identified in Wuhan, China, and has spread around the world. The World Health Organization has described the coronavirus outbreak as a "public health emergency of international concern". Oregon Governor Kate Brown declared a state of emergency on March 8, 2020, to ensure the swift deployment of the personnel and resources necessary to address coronavirus in Oregon. The World Health Organization declared the outbreak of COVID-19 to be a pandemic on March 11, 2020. On March 13, 2020, President Trump declared a national public health emergency with respect to the COVID-19 outbreak. While measures such as these assisted in responding to the COVID-19 pandemic some orders have had an adverse effect on the operations and financial position of charitable foundations, including OHSUF/DCHF, due to a reduction in contributions and decreases in investment returns. While contribution revenues are expected to experience gradual improvement beginning later in fiscal year 2021, management is unable to predict the future impact of the pandemic on the foundation's operations. The foundation's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Management has taken precautionary steps to enhance operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to operations, including implementing certain cost reduction initiatives and reducing or delaying certain planned projects.

Management believes the extent of the COVID-19 pandemic's adverse impact on operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the foundation's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, and changes in professional and general liability exposure. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on our business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including estimated contribution receivable reserves, alternative investment valuations, and valuation of split-interest agreements liabilities and assets.

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(13) Subsequent Events

The foundation has evaluated subsequent events through October 28, 2020, the date on which the financial statements were issued, noting none.