



Children's Health Council, Inc.

Financial Statements

June 30, 2015

(With Comparative Totals for 2014)

Audit Committee and Board of Directors
Children's Health Council, Inc.
Palo Alto, California

Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Health Council, Inc. (the Council), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Palo Alto
San Francisco
San Jose
St. Helena
New York

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Health Council, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Children's Health Council, Inc.'s June 30, 2014 financial statements, and our report dated October 24, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Frank Rimerum & Co. LLP

Palo Alto, California
October 15, 2015

Children's Health Council, Inc.
Statement of Financial Position
June 30, 2015 (with Summarized Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted (Endowment)	June 30, 2015 Total	June 30, 2014 Total
ASSETS					
Cash and Cash Equivalents	\$ 2,886,778	\$ 284,762	\$ 545,658	\$ 3,717,198	\$ 9,826,372
Accounts Receivable, net of allowance for doubtful accounts of \$50,000	1,029,505	-	-	1,029,505	1,428,568
Pledges Receivable, net	488,531	235,649	1,196,658	1,920,838	2,245,405
Prepaid Expenses and Other Assets	41,218	-	-	41,218	40,559
Investments	2,303,550	4,443,533	19,220,148	25,967,231	21,236,911
Property and Equipment, net	10,039,287	-	-	10,039,287	7,019,833
Receivable from Sale of Investments	-	-	114,332	114,332	-
Total assets	<u>\$ 16,788,869</u>	<u>\$ 4,963,944</u>	<u>\$ 21,076,796</u>	<u>\$ 42,829,609</u>	<u>\$ 41,797,648</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 139,393	\$ -	\$ -	\$ 139,393	\$ 571,826
Accrued expenses and other liabilities	1,211,618	-	-	1,211,618	959,255
Deferred revenue	967,715	-	-	967,715	708,187
Total liabilities	2,318,726	-	-	2,318,726	2,239,268
Commitments and Contingency (Notes 4, 9 and 10)					
Net Assets					
Unrestricted	14,470,143	-	-	14,470,143	14,456,007
Temporarily restricted	-	4,963,944	-	4,963,944	4,385,545
Permanently restricted	-	-	21,076,796	21,076,796	20,716,828
Total net assets	<u>14,470,143</u>	<u>4,963,944</u>	<u>21,076,796</u>	<u>40,510,883</u>	<u>39,558,380</u>
Total liabilities and net assets	<u>\$ 16,788,869</u>	<u>\$ 4,963,944</u>	<u>\$ 21,076,796</u>	<u>\$ 42,829,609</u>	<u>\$ 41,797,648</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Activities
June 30, 2015 (with Summarized Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended June 30, 2015 Total	Year Ended June 30, 2014 Total
Public Support					
Donations	\$ 1,517,675	\$ -	\$ 359,968	\$ 1,877,643	\$ 1,373,609
Auxiliary and special events, net	273,051	-	-	273,051	224,734
Foundation and trust grants	-	750,649	-	750,649	519,400
	<u>1,790,726</u>	<u>750,649</u>	<u>359,968</u>	<u>2,901,343</u>	<u>2,117,743</u>
Revenue					
Patient fees and insurance payments	1,354,029	-	-	1,354,029	1,435,041
School district funding	5,765,021	-	-	5,765,021	5,698,787
Government contracts	3,194,097	-	-	3,194,097	3,281,957
Tuition	1,501,676	-	-	1,501,676	1,278,116
Other income	312,368	-	-	312,368	427,253
	<u>12,127,191</u>	<u>-</u>	<u>-</u>	<u>12,127,191</u>	<u>12,121,154</u>
Net Assets Released from Restrictions	<u>625,738</u>	<u>(625,738)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>14,543,655</u>	<u>124,911</u>	<u>359,968</u>	<u>15,028,534</u>	<u>14,238,897</u>
Expenses					
Program services:					
Outpatient clinical services	4,342,128	-	-	4,342,128	4,443,503
School services	6,683,061	-	-	6,683,061	5,851,738
	<u>11,025,189</u>	<u>-</u>	<u>-</u>	<u>11,025,189</u>	<u>10,295,241</u>
Supporting services:					
Administration, management and general	2,295,463	-	-	2,295,463	2,033,229
Fundraising	1,247,222	-	-	1,247,222	859,727
	<u>3,542,685</u>	<u>-</u>	<u>-</u>	<u>3,542,685</u>	<u>2,892,956</u>
Total expenses	<u>14,567,874</u>	<u>-</u>	<u>-</u>	<u>14,567,874</u>	<u>13,188,197</u>
Increase (decrease) in net assets from operations	(24,219)	124,911	359,968	460,660	1,050,700
Investment Income					
Interest, dividends and earnings, net	10,123	483,487	-	493,610	703,259
Net realized and unrealized gain (loss)	28,232	(29,999)	-	(1,767)	2,663,796
Net investment income	<u>38,355</u>	<u>453,488</u>	<u>-</u>	<u>491,843</u>	<u>3,367,055</u>
Change in Net Assets	<u>14,136</u>	<u>578,399</u>	<u>359,968</u>	<u>952,503</u>	<u>4,417,755</u>
Net Assets, beginning of year	<u>14,456,007</u>	<u>4,385,545</u>	<u>20,716,828</u>	<u>39,558,380</u>	<u>35,140,625</u>
Net Assets, end of year	<u>\$ 14,470,143</u>	<u>\$ 4,963,944</u>	<u>\$ 21,076,796</u>	<u>\$ 40,510,883</u>	<u>\$ 39,558,380</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2015

	Outpatient Clinical Services	School Services	Total Program Services	Administration, Management and General	Fundraising	Total Supporting Services	Total
Salaries, Benefits, Contract Staff and Payroll Taxes	\$ 3,801,098	\$ 4,859,703	\$ 8,660,801	\$ 1,560,525	\$ 896,052	\$ 2,456,577	\$ 11,117,378
Operating Expenses	331,092	1,410,288	1,741,380	545,488	331,228	876,716	2,618,096
Utilities and Maintenance	67,977	128,150	196,127	72,156	5,048	77,204	273,331
Insurance	28,948	48,257	77,205	15,776	5,568	21,344	98,549
Total Expenses before Depreciation	4,229,115	6,446,398	10,675,513	2,193,945	1,237,896	3,431,841	14,107,354
Depreciation	113,013	236,663	349,676	101,518	9,326	110,844	460,520
Total expenses	<u>\$ 4,342,128</u>	<u>\$ 6,683,061</u>	<u>\$ 11,025,189</u>	<u>\$ 2,295,463</u>	<u>\$ 1,247,222</u>	<u>\$ 3,542,685</u>	<u>\$ 14,567,874</u>
Percentage of Total Expenses	<u>30%</u>	<u>46%</u>	<u>76%</u>	<u>16%</u>	<u>9%</u>	<u>24%</u>	<u>100%</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2014

	Outpatient Clinical Services	School Services	Total Program Services	Administration, Management and General	Fundraising	Total Supporting Services	Total
Salaries, Benefits, Contract Staff and Payroll Taxes	\$ 3,683,505	\$ 4,079,369	\$ 7,762,874	\$ 1,315,015	\$ 581,776	\$ 1,896,791	\$ 9,659,665
Operating Expenses	353,767	1,304,002	1,657,769	440,545	237,852	678,397	2,336,166
Utilities and Maintenance	82,592	94,939	177,531	57,948	7,092	65,040	242,571
Insurance	36,168	35,226	71,394	25,255	7,642	32,897	104,291
Total Expenses before Depreciation	4,156,032	5,513,536	9,669,568	1,838,763	834,362	2,673,125	12,342,693
Depreciation	119,675	140,796	260,471	80,957	10,560	91,517	351,988
Loss on Disposal of Property and Equipment	167,796	197,406	365,202	113,509	14,805	128,314	493,516
Total expenses	<u>\$ 4,443,503</u>	<u>\$ 5,851,738</u>	<u>\$ 10,295,241</u>	<u>\$ 2,033,229</u>	<u>\$ 859,727</u>	<u>\$ 2,892,956</u>	<u>\$ 13,188,197</u>
Percentage of Total Expenses	<u>34%</u>	<u>44%</u>	<u>78%</u>	<u>15%</u>	<u>7%</u>	<u>22%</u>	<u>100%</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statements of Cash Flows

	Years Ended June 30,	
	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ 952,503	\$ 4,417,755
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	460,520	351,988
Change in discount on pledges receivable	(41,751)	(82,529)
Net realized and unrealized loss (gain) on investments	1,766	(2,663,796)
Allowance for doubtful accounts	-	(50,000)
Loss on disposal of property and equipment	-	493,516
Changes in operating assets and liabilities:		
Accounts receivable	399,063	(600,924)
Pledges receivable	(300,200)	(247,165)
Prepaid expenses and other assets	(659)	52,247
Investment distributions receivable	-	229,521
Accounts payable and other current liabilities	(180,070)	537,898
Deferred revenue	259,528	234,030
Net cash provided by operating activities	1,550,700	2,672,541
Cash Flows from Investing Activities		
Proceeds from sale and distribution of investments	7,963,112	21,477,134
Purchase of investments	(12,809,530)	(17,744,352)
Purchase of property and equipment	(3,479,974)	(926,449)
Net cash provided by (used in) investing activities	(8,326,392)	2,806,333
Cash Flows from Financing Activities		
Proceeds from pledges receivable restricted for endowment	666,518	440,203
Net cash provided by financing activities	666,518	440,203
Net Increase (Decrease) in Cash and Cash Equivalents	(6,109,174)	5,919,077
Cash and Cash Equivalents, beginning of year	9,826,372	3,907,295
Cash and Cash Equivalents, end of year	<u>\$ 3,717,198</u>	<u>\$ 9,826,372</u>
<hr/>		
Supplemental Schedule of Noncash Investing Activities		
Investment distribution receivable	<u>\$ 114,332</u>	<u>\$ -</u>
Amounts payable for construction in progress	<u>\$ -</u>	<u>\$ 43,212</u>

See Notes to Financial Statements

Children's Health Council, Inc.

Notes to Financial Statements

1. Organization

Children's Health Council, Inc. (the Council) is a private, not-for-profit, tax-exempt corporation that believes in the promise and potential of every child. The Council's mission is to remove barriers to learning, helping children and teens become resilient, happy and successful at home, school and in life. The Council's quest is to remove social, emotional and learning barriers for kids and families regardless of language, location or ability to pay. For over 60 years, the Council has helped children, teens and families find the best ways to learn, develop and thrive.

The Council is organized into four distinct service divisions:

The Center at Children's Health Council provides expert interdisciplinary evaluations, individualized treatment and personalized programs to meet every child's unique challenges and needs. The Council works with families and schools to provide individualized treatment solutions for ADHD and inattention, Autism Spectrum Disorder, learning challenges, and anxiety and depression. The Council empowers children with social, emotional, physical and academic learning to uncover their greatest potential.

The Esther B. Clark School (EBC School), a nonpublic school with a campus located at the Council, provides transformative education in a caring, therapeutic day school setting where children with severe emotional and behavioral issues re-engage in learning and develop the positive behaviors necessary to transition back to a district school. EBC School serves students between the ages of seven and sixteen who have anxiety, depression and/or ADHD and may also have accompanying learning disabilities or speech-language disorders. EBC School employs a combination of therapeutic, academic and enrichment opportunities to create an individualized comprehensive plan for each student. When a student is equipped emotionally and educationally to return to local public school, he or she is gradually transitioned to ensure successful reintegration, generally within one to two years.

Sand Hill School is a private school with a campus located at the Council. Sand Hill School works with bright children with dyslexia or other language-based learning differences, attention and social challenges and prepares them to transition back to a traditional classroom. Programs emphasize students' strengths and empower each child to build academic skills and resiliency while developing strong social competencies and a joy for learning. A low student to teacher ratio (6:1) and coordination with CHC therapists, clinicians and specialists create a unique and happy environment for grades K-7, and is expanding to K-8.

Children's Health Council, Inc.
Notes to Financial Statements

1. Organization (continued)

The Community Clinic is dedicated to serving the underserved by providing assessment and treatment services for children who face a full range of mental health, developmental and behavioral issues. The Community Clinic uses a personalized approach to lift barriers to help each child develop and learn to his or her greatest potential. Services are primarily funded by Medi-Cal and First 5 government funding.

The Parent, Teacher & Continuing Education division offers unique classes from September through May presented by the Council's experts in psychology, education and child development. Classes provide insights and answers on child behavior issues, executive functioning, bullying, signs and tips for ADHD, LD, Anxiety & Depression and Autism and supporting success for all children.

2. Significant Accounting Policies

Financial Statement Presentation:

The Council prepares its financial statements on the accrual basis of accounting. The Council segregates its assets and liabilities, operations and cash flows into three categories: unrestricted, temporarily restricted and permanently restricted. Unrestricted assets are those available for use in the general activities of the Council, without restrictions by donors. Temporarily restricted assets are those whose use is restricted by the donor, based on time or purpose. Generally, these funds will be expended for a specified purpose or over a period of time and are not currently available for general use. Permanently restricted assets are endowment assets restricted by the donor in perpetuity and consist of cash equivalents, investments, and pledges receivable.

There are no permanent donor restrictions on investment income earned on permanently restricted assets. The Council's Board of Directors has a policy of withdrawing up to 5% of investment income from permanently restricted assets annually to support operations. Because the withdrawal rate is determined by the Board's internal policy rather than by donor restriction, the investment earnings in excess of the annual draw are added to the Council's board designated endowment funds, which is recorded as either unrestricted or temporarily restricted net assets.

Children's Health Council, Inc.
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Revenue Recognition:

The Council recognizes contributions, including promises to give (pledges), in the period the donor makes a promise to give that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction as to time or use expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges are stated at their net present value based on the expected date of receipt using a discount rate. The Council records an allowance against a pledge receivable when collectability is uncertain.

Patient fees, tuition and insurance payments, school district funding and government contract revenue are recognized in the period in which the services are provided. Amounts received for these services not yet provided are classified as deferred revenue.

Auxiliary and Special Events:

The Council raises money through special events and from the operation of a thrift store, the Bargain Box, which was closed in June 2014. Revenues from special events and the auxiliary are reported net of direct costs and expenses. Revenues and expenses associated with special events and the Bargain Box are as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Oktoberfest	\$ 330,863	\$ 145,757
Oktoberfest in-kind goods and services	92,828	24,426
The Mask Event	46,770	-
Bargain Box	-	253,470
DOTS fund	<u>-</u>	<u>11,223</u>
Total revenues	470,461	434,876
Oktoberfest cash expenditures	76,629	43,048
Oktoberfest in-kind goods and services	92,828	24,426
The Mask Event	27,953	-
Bargain Box	<u>-</u>	<u>142,668</u>
Total expenses	<u>197,410</u>	<u>210,142</u>
Auxiliary and special events, net	<u>\$ 273,051</u>	<u>\$ 224,734</u>

Children's Health Council, Inc.
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the estimated fair value of the Council's non-marketable investments and the collectability of accounts and pledges receivable.

Concentration of Credit Risk:

Financial instruments that potentially subject the Council to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable and pledges receivable. The Council maintains its cash and cash equivalents with one major U.S. financial institution and one major brokerage firm. The Council's cash balances with the financial institution may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). Cash balances exceeded FDIC insurable limits by \$2,485,000 at June 30, 2015 (\$1,856,000 at June 30, 2014). The Council's cash and investment balances held with the brokerage firm exceeded the amount insured by the Securities Investor Protection Corporation by \$20,879,000 at June 30, 2015 (\$23,212,000 at June 30, 2014). Non-marketable securities of \$3,031,000 at June 30, 2015 (\$4,639,000 at June 30, 2014) are not insured.

Property and Equipment:

Purchased assets are recorded at cost. Donated assets are recorded at estimated fair value at the date of contribution. Acquisitions of property and equipment with a cost or donated value in excess of \$5,000 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of three to five years for equipment and automobiles; seven years for furniture and fixtures; and 40 to 49 for buildings.

In June 2014, the Council began a renovation and remodel of its facilities, which included an expansion of the Sand Hill School. The Council incurred a loss of \$494,000 in 2014 from the disposal of property and equipment in connection with the renovation. Construction in progress was not depreciated until placed in service in September 2014.

Children's Health Council, Inc.
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Income Taxes:

The Council has been determined to be exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, respectively. As a result, no provision for federal or state income taxes has been provided for in the accompanying financial statements.

Although the Council is recognized as tax exempt, it is still liable for income tax on any unrelated business taxable income (UBTI) generated by its non-marketable investments. There was no tax liability relating to UBTI at June 30, 2015 or 2014.

The Council applies the provisions set forth in Financial Accounting Standards Board Accounting Standards Codification Topic 740 to account for the uncertainty in income taxes. The Council assessed all income tax positions taken where the statute of limitations remained open. Examples of these tax positions include the Council's tax-exempt status and potential sources of UBTI. The Council believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded at June 30, 2015 or 2014.

The Council's federal exempt organization business income tax return (Form 990) is subject to examination, generally for three years after it is filed with the Internal Revenue Service. The Council's California exempt organization business income tax return is subject to examination, generally for four years after it is filed with the Franchise Tax Board.

Statement of Functional Expenses:

The costs of providing the Council's various programs and services have been summarized on a functional basis in the Statements of Functional Expenses. Direct expenses are allocated to the related program or service benefited. Indirect expenses are generally allocated based on the direct salaries incurred or square footage used by each program or service benefited.

Cash and Cash Equivalents:

For purposes of the Statements of Cash Flows, the Council considers all highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash equivalents.

Children's Health Council, Inc.
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments:

Valuation of Investments:

Investments in marketable securities are valued at prices quoted on established securities exchanges.

Non-marketable securities consist of investments in real estate limited partnerships, private equity funds, and hedge funds. These investments are subject to restriction on resale, are carried at estimated fair value, as determined by the general partner or fund manager, and are subject to the audit of each investment's financial statements. In determining fair value, the general partner or fund manager gives consideration to recent sales prices of issuers' securities, operating results, financial condition and other pertinent information. Because of the inherent uncertainty of valuations, however, estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material to the financial statements.

The Council uses a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

The three-level hierarchy for fair value measurements is defined as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III: Inputs to the valuation methodology, which are significant to the fair value measurement, are unobservable.

An investment's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Children's Health Council, Inc.
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

Level III Valuation Techniques:

The valuation of non-marketable investments requires significant judgment by the Council due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such assets. A variety of factors are reviewed by management, including, but not limited to: financing and sales transactions with third parties, current operating performance and future expectations of the particular investment, changes in market outlook, and the third party financing environment.

Private Equity Funds – The general partner or fund manager of these funds uses various valuation approaches, including market and income approaches in determining fair value. Inputs that are used in determining fair value of an investment may include price information, credit data, volatility statistics, and other factors. In addition, inputs can be either observable or unobservable.

Hedge Funds – The fund managers of these funds determine fair value using valuation methodologies after giving consideration to a range of factors including, but not limited to, the fair value statement provided by the general partners and fund managers of underlying portfolio investments, the nature of the investment, local market conditions, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and ongoing due diligence. These valuation methodologies involve a significant degree of management judgment.

Real Estate Limited Partnership Investments – The Council carries investments in real estate limited partnerships at estimated fair value. The general partner determines fair value using a combination of valuation techniques most suitable for the type of investment including, but not limited to: (1) discounted cash flows; (2) earnings multiples and market capitalization rates; (3) third party appraisals; (4) bona fide purchase offers and (5) recent sales of comparable investments.

Valuation Process:

Management determines the fair value measurement valuation policies and procedures, including those for Level III recurring and nonrecurring fair value measurements. Management assesses and approves these policies and procedures. At least annually, management (1) determines whether the current valuation techniques used in fair value measurements are still appropriate and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

Children's Health Council, Inc.
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

Valuation Process: (continued)

Private Equity Funds – The fair value of the private equity fund investments is initially based upon the transaction price. The fund manager or general partner relies on inputs such as multiple market price quotations from market makers (either market or indicative levels), original transaction price, recent transactions in the same or similar instruments, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in the financial ratios or cash flows to determine ongoing fair value. Such instruments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the funds in the absence of market information. Due to the lack of observable inputs, assumptions used by the fund manager or general partner may significantly impact the resulting fair value.

Hedge Funds – Fund managers of hedge funds may rely on inputs such as market price quotations from market makers (either market or indicative levels), original transaction price, recent transactions in the same or similar instruments, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows to determine fair value. These instruments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the fund managers in the absence of market information. Due to the lack of observable inputs, assumptions used by the fund managers may significantly impact the resulting fair value.

Real Estate Limited Partnership Investments – Real estate partnership investments are measured under a hypothetical liquidation assumption, in which the net assets available to each real estate company investment are allocated to the investors according to the operating agreement of each real estate company investment. The inputs used by the real estate companies' management in performing the valuations of the underlying real estate investments are considered Level III measurements.

Land Lease:

The Council leases the land on which its primary facility is located from Leland Stanford Junior University. The lease, which provides for a nominal annual rent, expires in 2046. The Council determined at the inception of the lease in 1995 that the present value of the bargain rent to be received over the lease term was not material to its financial position.

Children's Health Council, Inc.
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Comparative Financial Information:

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Recent Accounting Pronouncements Not Yet Effective:

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. ASU 2015-07 becomes effective for the Council as of July 1, 2017. Early adoption is permitted; however, the Council has not elected to adopt the standard in these financial statements. The Council is currently evaluating the effect ASU 2015-07 will have on its financial statements and believes the adoption of the standard may simplify the methodology for valuation of certain of its non-marketable investments and the related footnote disclosures.

In May 2014, the FASB issued Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard will replace most existing revenue recognition guidance generally accepted in the United States of America. Topic 606 is effective for the Council as of July 1, 2019, and permits the use of either a retrospective or cumulative effect transition method for its adoption. The Council is currently evaluating the effect Topic 606 will have on its financial statements and related disclosures.

Children's Health Council, Inc.
Notes to Financial Statements

3. Pledges Receivable

Pledges receivable consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Endowment Campaign	\$ 1,265,077	\$ 1,631,595
Programs and Other	<u>757,726</u>	<u>757,526</u>
	2,022,803	2,389,121
Less discount to net present value	<u>(101,965)</u>	<u>(143,716)</u>
Net contributions receivable	<u>\$ 1,920,838</u>	<u>\$ 2,245,405</u>
Amounts receivable in:		
Less than one year	\$ 322,519	\$ 541,319
One to five years	1,675,284	1,822,802
Greater than five years	<u>25,000</u>	<u>25,000</u>
	<u>\$ 2,022,803</u>	<u>\$ 2,389,121</u>

Contributions to be received after one year from the financial statement date are reflected at the net present value of estimated future cash flows using a risk-adjusted discount rate ranging from 3% to 5%. Uncollectible promises are expected to be insignificant.

Pledges receivable at June 30, 2015 and 2014 include receivables from four irrevocable survivor trusts where the Council has been named as a remainder beneficiary. Management has recorded the estimated net present value of the Council's interest in the trusts at \$633,000 at June 30, 2015 (\$621,000 at June 30, 2014), based on the current estimated fair value of the trust assets and estimated payments to be made to the lifetime beneficiaries.

Children's Health Council, Inc.
Notes to Financial Statements

4. Investments

The following table presents the Council's investments as of June 30, 2015, at fair value under the three-level hierarchy:

	<u>Level I</u>	<u>Level III</u>	<u>Total</u>
Equity securities:			
Domestic	\$ 8,345,506	\$ -	\$ 8,345,506
International	2,395,453	-	2,395,453
Income funds:			
Domestic	9,540,795	-	9,540,795
International	155,396	-	155,396
Emerging market funds	1,929,877	-	1,929,877
Natural Resource funds	569,640	-	569,640
Private equity funds	-	1,136,508	1,136,508
Hedge funds	-	1,470,984	1,470,984
Real estate limited partnerships	-	423,072	423,072
Total	<u>\$ 22,936,667</u>	<u>\$ 3,030,564</u>	<u>\$ 25,967,231</u>

The following table summarizes the quantitative inputs and assumptions used for investments categorized as Level III under the fair value hierarchy as of June 30, 2015.

	<u>Fair Value at June 30, 2015</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
Private equity funds	\$ 1,136,508	Market, cost and income approaches	Financial ratios and illiquidity
Hedge funds	\$ 1,470,984	Projected operating performance and market conditions	Financial ratios and illiquidity
Real estate limited partnerships	\$ 423,072	Market, discounted cash flows and income multiple	Hypothetical liquidation assumption

Children's Health Council, Inc.
Notes to Financial Statements

4. Investments (continued)

The following table presents the Council's investments as of June 30, 2014, at fair value under the three-level hierarchy:

	<u>Level I</u>	<u>Level III</u>	<u>Total</u>
Equity securities:			
Domestic	\$ 6,927,240	\$ -	\$ 6,927,240
International	1,830,696	-	1,830,696
Income funds:			
Domestic	5,617,428	-	5,617,428
International	689,025	-	689,025
Emerging market funds	1,533,684	-	1,533,684
Private equity funds	-	1,453,954	1,453,954
Hedge funds	-	2,453,400	2,453,400
Real estate limited partnerships	-	731,484	731,484
Total	<u>\$ 16,598,073</u>	<u>\$ 4,638,838</u>	<u>\$ 21,236,911</u>

The following table summarizes the quantitative inputs and assumptions used for investments categorized as Level III under the fair value hierarchy as of June 30, 2014.

	<u>Fair Value at June 30, 2014</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
Private equity funds	\$ 1,453,954	Market, cost and income approaches	Financial ratios and illiquidity
Hedge funds	\$ 2,453,400	Projected operating performance and market conditions	Financial ratios and illiquidity
Real estate limited partnerships	\$ 731,484	Market, discounted cash flows and income multiple	Hypothetical liquidation assumption

Children's Health Council, Inc.
Notes to Financial Statements

4. Investments (continued)

The tables below include a roll-forward of the amounts in the Statements of Financial Position for the years ended June 30, 2015 and 2014 (including the change in fair value) for non-marketable investments classified by the Council within Level III of the fair value hierarchy. When a determination is made to classify an investment within Level III of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement; however, Level III investments typically include, in addition to the unobservable Level III inputs, observable components (that is, components that are actively quoted or can be validated to market-based sources). The gains and losses in the tables below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

Investment activity in in the Council's non-marketable securities consists of the following for the year ended June 30, 2015:

	July 1, 2014	Contributions	Realized and Unrealized Gain (Loss)	Investment Income	Distributions	June 30, 2015
Fortress Partners Offshore Fund L.P.	\$ 333,971	\$ -	\$ (19,653)	\$ 3,249	\$ (112,974)	\$ 204,593
Forester Opportunities, L.P.	-	500,000	7,039	-	-	507,039
HCP Absolute Return Fund Offshore Feeder, L.P.	1,265,672	-	9,607	(11,334)	(300,000)	963,945
GT Offshore Fund, Ltd. Class B	1,136,989	-	10,343	-	(1,147,332)	-
Common Sense Long-Biased Offshore, Ltd.	50,740	-	(22,248)	-	(28,492)	-
Palladian Partners VI, L.P.	782,914	-	62,179	-	(192,400)	652,693
Penn Square Global Real Estate Fund I, L.P.	304,838	-	(24,100)	9,500	(70,963)	219,275
Hudson Realty Capital Fund IV Co-Investment Vehicle, L.P.	151,248	-	(4,747)	-	(138,520)	7,981
Metropolitan Real Estate Partners VI, L.P.	149,560	3,125	15,941	182	(49,371)	119,437
Metropolitan Real Estate Partners 2008 Distressed Co-Investment Vehicle, L.P.	125,838	-	(9,917)	2,018	(41,560)	76,379
Rosemont Solebury Co-Investment Fund (Offshore), L.P.	123,783	-	(4,766)	-	(15,335)	103,682
RCH Energy MLP Fund, L.P.	213,285	-	(40,497)	2,752	-	175,540
Total	<u>\$ 4,638,838</u>	<u>\$ 503,125</u>	<u>\$ (20,819)</u>	<u>\$ 6,367</u>	<u>\$ (2,096,947)</u>	<u>\$ 3,030,564</u>

Children's Health Council, Inc.
Notes to Financial Statements

4. Investments (continued)

Investment activity in in the Council's non-marketable securities consists of the following for the year ended June 30, 2014:

	July 1, 2013	Contributions	Realized and Unrealized Gain (Loss)	Investment Income	Distributions	June 30, 2014
Fortress Partners Offshore Fund L.P.	\$ 338,312	\$ -	\$ (4,341)	\$ -	\$ -	\$ 333,971
HCP Absolute Return Fund Offshore Feeder, L.P.	1,150,698	-	114,960	14	-	1,265,672
GT Offshore Fund, Ltd. Class B	1,000,995	-	135,994	-	-	1,136,989
Common Sense Long-Biased Offshore, Ltd.	551,398	48,042	34,369	825	(583,894)	50,740
Palladian Partners VI, L.P.	526,237	-	256,677	-	-	782,914
Penn Square Global Real Estate Fund I, L.P.	325,868	-	19,941	5,048	(46,019)	304,838
Hudson Realty Capital Fund IV Co-Investment Vehicle, L.P.	215,326	-	37,991	3,256	(105,325)	151,248
Metropolitan Real Estate Partners VI, L.P.	183,067	3,750	11,973	17,759	(66,989)	149,560
Metropolitan Real Estate Partners 2008 Distressed Co-Investment Vehicle, L.P.	148,880	-	9,313	9,668	(42,023)	125,838
Rosemont Solebury Co-Investment Fund (Offshore), L.P.	177,011	3,306	(46,377)	27,771	(37,928)	123,783
RCH Energy MLP Fund, L.P.	<u>97,562</u>	<u>-</u>	<u>165,147</u>	<u>1,001</u>	<u>(50,425)</u>	<u>213,285</u>
Total	<u>\$ 4,715,354</u>	<u>\$ 55,098</u>	<u>\$ 735,647</u>	<u>\$ 65,342</u>	<u>\$ (92,603)</u>	<u>\$ 4,638,838</u>

The Council has commitments to invest additional capital to fund certain of its non-marketable securities. At June 30, 2015, the Council had future capital call commitments of \$484,000, which are payable when required by the general partners or fund managers.

At June 30, 2015 and 2014, the Council's Level III investments have varying redemption options to provide the Council with liquidity, ranging from quarterly, annual, and tri-annual redemption opportunities for investments that will not be redeemable until the calendar years 2016 through 2030.

Children's Health Council, Inc.
Notes to Financial Statements

4. Investments (continued)

Fair value, cost and cumulative unrealized appreciation of the Council's investments are as follows at June 30, 2015:

	<u>Fair Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Equity securities	\$ 10,740,959	\$ 9,303,152	\$ 1,437,807
Income funds	9,696,191	9,611,739	84,452
Emerging market funds	1,929,877	1,921,399	8,478
Natural resource funds	569,640	604,871	(35,231)
Private equity funds	1,136,508	1,166,578	(30,070)
Hedge funds	1,470,984	1,447,691	23,293
Real estate limited partnerships	<u>423,072</u>	<u>718,700</u>	<u>(295,628)</u>
Total	<u>\$ 25,967,231</u>	<u>\$ 24,774,130</u>	<u>\$ 1,193,101</u>

Fair value, cost and cumulative unrealized appreciation of the Council's investments are as follows at June 30, 2014:

	<u>Fair Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Equity securities	\$ 8,757,936	\$ 7,575,588	\$ 1,182,348
Income funds	6,306,453	6,327,764	(21,311)
Emerging market funds	1,533,684	1,493,573	40,111
Private equity funds	1,453,954	1,319,321	134,633
Hedge funds	2,453,400	2,403,388	50,012
Real estate limited partnerships	<u>731,484</u>	<u>718,700</u>	<u>12,784</u>
Total	<u>\$ 21,236,911</u>	<u>\$ 19,838,334</u>	<u>\$ 1,398,577</u>

Investments are exposed to various risks, such as changes in interest rate, market, and credit risks. Economic concerns continue to challenge the global financial markets; hence, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the Council's financial statements.

Children's Health Council, Inc.
Notes to Financial Statements

5. Investment Income

Investment income represents interest and dividends earned and earnings from limited partnerships, hedge funds and private equity funds, net of investment management expenses. Realized gains and losses on investments are calculated as the difference between proceeds received and the original cost of the investment. Unrealized gains and losses represent the difference between the current fair value of the investments and their cost basis if purchased during the year or their fair value at the beginning of the year.

Net investment income consists of the following for the year ended June 30, 2015:

	Interest, Dividends and Earnings	Net Realized/ Unrealized Loss	Investment Management Expenses	Total
Marketable securities	\$ 581,708	\$ 19,052	\$ (94,465)	\$ 506,295
Non-marketable securities	<u>6,367</u>	<u>(20,819)</u>	<u>-</u>	<u>(14,452)</u>
	<u>\$ 588,075</u>	<u>\$ (1,767)</u>	<u>\$ (94,465)</u>	<u>\$ 491,843</u>

Net investment income consists of the following for the year ended June 30, 2014:

	Interest, Dividends and Earnings	Net Realized/ Unrealized Gain	Investment Management Expenses	Total
Marketable securities	\$ 738,491	\$ 1,928,149	\$ (100,574)	\$ 2,566,066
Non-marketable securities	<u>65,342</u>	<u>735,647</u>	<u>-</u>	<u>800,989</u>
	<u>\$ 803,833</u>	<u>\$ 2,663,796</u>	<u>\$ (100,574)</u>	<u>\$ 3,367,055</u>

Children's Health Council, Inc.
Notes to Financial Statements

6. Property and Equipment

Property and equipment comprise the following at June 30:

	<u>2015</u>	<u>2014</u>
Building	\$ 13,141,390	\$ 9,098,246
Equipment	1,496,639	1,306,006
Computer software	776,571	776,571
Furniture and fixtures	779,272	661,345
Automobiles	93,807	104,176
Construction in progress	<u>-</u>	<u>907,748</u>
	16,287,679	12,854,092
Less accumulated depreciation	<u>(6,248,392)</u>	<u>(5,834,259)</u>
	<u>\$ 10,039,287</u>	<u>\$ 7,019,833</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at June 30:

	<u>2015</u>	<u>2014</u>
Outpatient Clinical Programs	\$ 360,649	\$ 250,000
Unappropriated Endowment Fund Income	4,443,533	3,990,045
Other	<u>159,762</u>	<u>145,500</u>
	<u>\$ 4,963,944</u>	<u>\$ 4,385,545</u>

Net assets were released from donor restrictions by the passage of time or incurring expenses satisfying the restricted purposes as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Time and Purpose Restrictions Accomplished Based on Stipulations of the Donor:		
School programs	\$ 10,000	\$ 210,986
Outpatient clinical programs	470,000	188,500
Parent Education	<u>145,738</u>	<u>183,400</u>
	<u>\$ 625,738</u>	<u>\$ 582,886</u>

Children's Health Council, Inc.
Notes to Financial Statements

8. Endowment

The Council's endowment consists of donor restricted endowment funds, accumulated earnings on such funds, and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Council's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Council classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as unrestricted net assets.

In accordance with SPMIFA, the Council considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Council and the donor restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Council;
- (7) The Council's investment policies.

Children's Health Council, Inc.
Notes to Financial Statements

8. Endowment (continued)

The Council has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes mutual funds, private equity funds and limited partnerships, that is intended to result in a consistent rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds, if possible. The long-term targeted asset allocation is: 52% equity securities; 30% fixed income securities; 8% real assets; 8% absolute return; 2% cash and cash equivalents. Endowment assets are subject to asset class diversification and limitation guidelines in order to avoid excessive investment concentration and to protect the portfolio against unfavorable outcomes within an asset class.

The Council's Investment Committee monitors the portfolio's composite investment performance (net of fees) against a composite benchmark consisting of the following unmanaged market indices weighted according to the expected target asset allocations stipulated by the endowment's investment guidelines:

- a) Domestic equity: S&P 500 Index and Russell 2000 Index
- b) International equity: MSCI ACWI ex-US
- c) Fixed income: Barclays Aggregate Index
- d) Real Estate: NAREIT Index
- e) Absolute/Real Return: Barclays 1-3 Year Aggregate Index
- f) Commodities/Natural Resources: Dow Jones UBS Commodity Index
- g) Cash/Cash Equivalents: U.S. T-Bill 30 Day Index

Children's Health Council, Inc.
Notes to Financial Statements

8. Endowment (continued)

The Council has a policy of appropriating for distribution each year 5% of the permanently restricted assets average fair value of the prior 12 quarters ending March 31 preceding the fiscal year in which the distribution is planned. In establishing this policy, the Council considers the long-term expected return on its investment assets and the nature and duration of the individual endowment funds and relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized, and current yield, such as interest and dividends.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Council to retain as a fund of perpetual duration. The fair value of the endowment assets exceeded the value of the original donor gifts at June 30 2015 and 2014

Endowment assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted				
Endowment Funds	\$ -	\$ -	\$ 21,076,796	\$ 21,076,796
Board Designated				
Endowment Funds	2,454,528	-	-	2,454,528
Unappropriated				
Endowment Income	<u>-</u>	<u>4,443,532</u>	<u>-</u>	<u>4,443,532</u>
Total Endowment Assets	<u>\$ 2,454,528</u>	<u>\$ 4,443,532</u>	<u>\$ 21,076,796</u>	<u>\$ 27,974,856</u>

Endowment assets consist of the following at June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted				
Endowment Funds	\$ -	\$ -	\$ 20,716,828	\$ 20,716,828
Board Designated				
Endowment Funds	5,734,175	-	-	5,734,175
Unappropriated				
Endowment Income	<u>-</u>	<u>3,990,045</u>	<u>-</u>	<u>3,990,045</u>
Total Endowment Assets	<u>\$ 5,734,175</u>	<u>\$ 3,990,045</u>	<u>\$ 20,716,828</u>	<u>\$ 30,441,048</u>

Children's Health Council, Inc.
Notes to Financial Statements

8. Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ 5,734,175	\$ 3,990,045	\$ 20,716,828	\$ 30,441,048
Contributions	-	-	359,968	359,968
Net appreciation (depreciation)	<u>(3,279,647)</u>	<u>453,487</u>	<u>-</u>	<u>(2,826,160)</u>
Endowment Net Assets, end of year	<u>\$ 2,454,528</u>	<u>\$ 4,443,532</u>	<u>\$ 21,076,796</u>	<u>\$ 27,974,856</u>

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ 4,639,188	\$ 945,820	\$ 20,632,879	\$ 26,217,887
Contributions	-	-	83,949	83,949
Additional designated assets	793,472	-	-	793,472
Net appreciation	<u>301,515</u>	<u>3,044,225</u>	<u>-</u>	<u>3,345,740</u>
Endowment Net Assets, end of year	<u>\$ 5,734,175</u>	<u>\$ 3,990,045</u>	<u>\$ 20,716,828</u>	<u>\$ 30,441,048</u>

9. Commitments

Lease:

The Council has an operating lease for a clinical facility in San Jose, California, which expires in November 2017. The Council may extend the lease for an additional three years at the then current market rate. The Council had a non-cancelable operating lease for its Bargain Box retail facility located in Palo Alto, California, which expired in June 2014. Rent expense was \$59,000 in 2015 (\$57,000 in 2014).

Children's Health Council, Inc.
Notes to Financial Statements

9. Commitments (continued)

Lease: (continued)

Future minimum rental payments under the lease are as follows for fiscal years ending June 30:

2016	\$	62,000
2017		69,000
2018		<u>29,000</u>
Total	\$	<u>160,000</u>

10. Government Contracts Receivable

The Council contracts with the County of Santa Clara, California (the County) to provide certain clinical and school services. The County, in turn, is reimbursed by the State of California for these payments. The County's records and reconciliations are subject to final audit and settlement by the State Controller's office. The results of these audits may result in additional payments by the County to the Council. Any amounts collected from the County will be recognized as revenue when received.

As of June 30, 2014, the County has open audits for fiscal years 2002 through 2003 and fiscal years 2007 through 2012. Amounts billed by the Council to the County total \$973,000 for these periods. The collection of excess service billings is dependent upon future State funding becoming available in amounts sufficient for the County to reimburse the Council and the County's other service providers.

Children's Health Council, Inc.
Notes to Financial Statements

11. Employee Benefit Plan

The Council had a defined contribution 403(b) plan for its employees. Employees could elect to participate at any time after employment and contribute up to a maximum of 100% of their annual salaries, not to exceed \$18,000 for employees under age 50, and \$23,500 for employees age 50 and above per year. Through June 2014, the plan document would not allow the Council to make contributions to the plan.

In July 2014, the plan was amended to allow the Council to make contributions to employees' 403(b) accounts. In September 2014, Council contributions of \$200,000 for fiscal 2014 were approved and accrued as of June 30, 2014. These amounts were paid during fiscal 2015. In January 2015 this plan was terminated.

In January 2015 the Council adopted a 401(k) plan for its employees. Employees can elect to participate at any time after employment and contribute up to a maximum of 100% of their annual salaries, not to exceed \$18,000 for employees under age 50, and \$23,500 for employees age 50 and above per year. The plan allows for discretionary employer contributions, there were no such contributions in 2015.

12. Related Party Transactions

In 2013, a member of the Council's Board of Directors, who was not compensated by the Council during fiscal 2013, pledged \$2,000,000 in permanently restricted funds, of which \$850,000 remains outstanding at June 30, 2015.

In 2014, the Council hired a construction company for the renovation and remodeling of its facilities which was completed during 2015. An owner of the construction company joined the Council's Board of Directors in June 2014.

13. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the Statement of Financial Position date through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no unrecognized subsequent events that require additional disclosure.