



Children's Health Council, Inc.

Financial Statements

June 30, 2019

(With Summarized Comparative Totals for 2018)

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

Certified
Public
Accountants



Palo Alto
San Francisco
San Jose
St. Helena

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Health Council, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2019, 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, 2018 financial statements, and we have expressed an unmodified audit opinion on those audited statements in our report dated November 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Frank, Rimmerman & Co. LLP

Palo Alto, California
November 13, 2019

Children's Health Council, Inc.
Statement of Financial Position
June 30, 2019 (with Summarized Comparative Totals for 2018)

	June 30, 2019			June 30, 2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
ASSETS				
Cash and Cash Equivalents	\$ 2,521,957	\$ 257,138	\$ 2,779,095	\$ 1,770,104
Accounts Receivable, net of allowance for doubtful accounts of \$50,000	2,485,704	-	2,485,704	1,853,518
Pledges Receivable, net	-	1,467,740	1,467,740	2,189,730
Prepaid Expenses and Other Assets	131,091	-	131,091	189,395
Investments	2,290,974	29,906,580	32,197,554	32,678,069
Property and Equipment, net	10,428,165	-	10,428,165	9,334,905
Total assets	<u>\$ 17,857,891</u>	<u>\$ 31,631,458</u>	<u>\$ 49,489,349</u>	<u>\$ 48,015,721</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 39,322	\$ -	\$ 39,322	\$ 70,420
Accrued expenses and other current liabilities	2,373,009	-	2,373,009	1,530,744
Deferred revenue	1,760,180	-	1,760,180	1,319,907
Total liabilities	4,172,511	-	4,172,511	2,921,071
Commitments (Notes 5, 6 and 9)				
Net Assets				
Without donor restrictions				
Undesignated	8,853,185	-	8,853,185	7,410,275
Board designated				
Facilities	2,000,000	-	2,000,000	2,000,000
Funds functioning as endowments	2,832,195		2,832,195	3,338,128
With donor restrictions	-	31,631,458	31,631,458	32,346,247
Total net assets	<u>13,685,380</u>	<u>31,631,458</u>	<u>45,316,838</u>	<u>45,094,650</u>
Total liabilities and net assets	<u>\$ 17,857,891</u>	<u>\$ 31,631,458</u>	<u>\$ 49,489,349</u>	<u>\$ 48,015,721</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Activities
Year Ended June 30, 2019 (with Summarized Comparative Totals for 2018)

	Year Ended June 30, 2019			Year Ended
	Without Donor Restrictions	With Donor Restrictions	Total	June 30, 2018 Total
Public Support				
Donations	\$ 3,397,754	\$ 121,711	\$ 3,519,465	\$ 3,877,121
Special events, net	473,931	-	473,931	435,762
Foundation and trust grants	-	47,164	47,164	1,280,396
	<u>3,871,685</u>	<u>168,875</u>	<u>4,040,560</u>	<u>5,593,279</u>
Revenue				
Patient fees and insurance payments	2,983,433	-	2,983,433	2,233,430
School district funding	10,427,103	-	10,427,103	8,453,539
Government contracts	3,317,329	-	3,317,329	3,090,704
Tuition	2,363,463	-	2,363,463	2,204,200
Other income	284,350	-	284,350	321,968
	<u>19,375,678</u>	<u>-</u>	<u>19,375,678</u>	<u>16,303,841</u>
Net Assets Released from Restrictions	<u>2,094,334</u>	<u>(2,094,334)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>25,341,697</u>	<u>(1,925,459)</u>	<u>23,416,238</u>	<u>21,897,120</u>
Expenses				
Program services:				
Outpatient clinical services	7,951,649	-	7,951,649	6,471,622
School services	11,392,488	-	11,392,488	10,226,758
Community Connections	858,571	-	858,571	977,609
	<u>20,202,708</u>	<u>-</u>	<u>20,202,708</u>	<u>17,675,989</u>
Supporting services:				
Administration, management and general	2,426,422	-	2,426,422	2,486,076
Fundraising	1,134,697	-	1,134,697	917,059
Marketing	781,830	-	781,830	594,294
	<u>4,342,949</u>	<u>-</u>	<u>4,342,949</u>	<u>3,997,429</u>
Total expenses	<u>24,545,657</u>	<u>-</u>	<u>24,545,657</u>	<u>21,673,418</u>
Increase (decrease) in net assets from operations	<u>796,040</u>	<u>(1,925,459)</u>	<u>(1,129,419)</u>	<u>223,702</u>
Other Revenue				
Return on investments	<u>140,937</u>	<u>1,210,670</u>	<u>1,351,607</u>	<u>2,203,439</u>
Total other revenue	<u>140,937</u>	<u>1,210,670</u>	<u>1,351,607</u>	<u>2,203,439</u>
Change in Net Assets	<u>936,977</u>	<u>(714,789)</u>	<u>222,188</u>	<u>2,427,141</u>
Net Assets, beginning of year	<u>12,748,403</u>	<u>32,346,247</u>	<u>45,094,650</u>	<u>42,667,509</u>
Net Assets, end of year	<u>\$ 13,685,380</u>	<u>\$ 31,631,458</u>	<u>\$ 45,316,838</u>	<u>\$ 45,094,650</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019

	Outpatient Clinical Services	School Services	Community Connections	Total Program Services	Administration, Management and General	Fundraising	Marketing	Total Supporting Services	Total
Salaries and Compensation	\$ 5,580,374	\$ 6,408,501	\$ 403,173	\$ 12,392,048	\$ 1,562,222	\$ 678,489	\$ 384,820	\$ 2,625,531	\$ 15,017,579
Benefits and Payroll Taxes	1,200,574	1,516,372	69,306	2,786,252	215,130	95,584	63,942	374,656	3,160,908
Outside Contractors	397,217	343,444	42,215	782,876	77,259	208,744	240,731	526,734	1,309,610
Student Transportation	-	1,343,619	-	1,343,619	-	-	-	-	1,343,619
Office Supplies	161,409	407,191	11,559	580,159	92,557	79,383	53,053	224,993	805,152
Rent Expense	49,844	417,901	-	467,745	-	-	-	-	467,745
Operating Expenses	56,389	94,932	314,869	466,190	175,418	62,270	32,601	270,289	736,479
Facilities Related	124,081	318,390	5,500	447,971	105,074	2,292	-	107,366	555,337
Utilities and Maintenance	82,002	200,469	3,409	285,880	69,067	2,259	1,795	73,121	359,001
Insurance	31,648	56,703	2,094	90,445	6,537	2,990	2,743	12,270	102,715
Bad Debt	137,444	-	-	137,444	-	-	-	-	137,444
Total Expenses before Depreciation	7,820,982	11,107,522	852,125	19,780,629	2,303,264	1,132,011	779,685	4,214,960	23,995,589
Depreciation	130,667	284,966	6,446	422,079	123,158	2,686	2,145	127,989	550,068
Total expenses	<u>\$ 7,951,649</u>	<u>\$ 11,392,488</u>	<u>\$ 858,571</u>	<u>\$ 20,202,708</u>	<u>\$ 2,426,422</u>	<u>\$ 1,134,697</u>	<u>\$ 781,830</u>	<u>\$ 4,342,949</u>	<u>\$ 24,545,657</u>
Percentage of Total Expenses	<u>32%</u>	<u>47%</u>	<u>3%</u>	<u>82%</u>	<u>10%</u>	<u>5%</u>	<u>3%</u>	<u>18%</u>	<u>100%</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

	Outpatient Clinical Services	School Services	Community Connections	Total Program Services	Administration, Management and General	Fundraising	Marketing	Total Supporting Services	Total
Salaries and Compensation	\$ 4,737,157	\$ 5,918,685	\$ 448,126	\$ 11,103,968	\$ 1,602,638	\$ 563,878	\$ 205,329	\$ 2,371,845	\$ 13,475,813
Benefits and Payroll Taxes	1,030,713	1,438,812	80,180	2,549,705	217,774	78,275	32,011	328,060	2,877,765
Outside Contractors	155,326	249,438	91,522	496,286	94,100	166,587	265,564	526,251	1,022,537
Student Transportation	-	995,803	-	995,803	-	-	-	-	995,803
Office Supplies	111,188	299,451	9,786	420,425	94,440	30,905	49,454	174,799	595,224
Rent Expense	57,491	457,512	-	515,003	-	-	-	-	515,003
Operating Expenses	66,490	74,949	332,224	473,663	190,181	64,760	37,278	292,219	765,882
Facilities Related	86,326	259,034	4,197	349,557	80,528	5,012	-	85,540	435,097
Utilities and Maintenance	55,180	178,392	2,623	236,195	52,110	1,926	1,106	55,142	291,337
Insurance	27,503	40,075	1,834	69,412	18,337	2,751	1,184	22,272	91,684
Total Expenses before Depreciation	6,327,374	9,912,151	970,492	17,210,017	2,350,108	914,094	591,926	3,856,128	21,066,145
Depreciation	144,248	314,607	7,117	465,972	135,968	2,965	2,368	141,301	607,273
Total expenses	<u>\$ 6,471,622</u>	<u>\$ 10,226,758</u>	<u>\$ 977,609</u>	<u>\$ 17,675,989</u>	<u>\$ 2,486,076</u>	<u>\$ 917,059</u>	<u>\$ 594,294</u>	<u>\$ 3,997,429</u>	<u>\$ 21,673,418</u>
Percentage of Total Expenses	<u>30%</u>	<u>47%</u>	<u>5%</u>	<u>82%</u>	<u>11%</u>	<u>4%</u>	<u>3%</u>	<u>18%</u>	<u>100%</u>

See Notes to Financial Statements

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

	Years Ended June 30,	
	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 222,188	\$ 2,427,141
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	550,068	607,273
Change in discount on pledges receivable	(33,682)	108,527
Net realized and unrealized gain on investments	(582,367)	(1,472,145)
Contributions restricted for endowment	(121,711)	(119,577)
Allowance for doubtful accounts	137,444	-
Changes in operating assets and liabilities:		
Accounts receivable	(769,630)	(551,467)
Pledges receivable	547,000	(969,499)
Prepaid expenses and other assets	58,304	(51,518)
Accounts payable	(31,098)	(72,226)
Accrued expenses and other current liabilities	842,265	190,219
Deferred revenue	440,273	58,784
Net cash provided by operating activities	1,259,054	155,512
Cash Flows from Investing Activities		
Proceeds from sale and distribution of investments	9,468,552	8,781,429
Purchase of investments	(8,405,670)	(9,310,254)
Purchase of property and equipment	(1,643,328)	(284,102)
Net cash used in investing activities	(580,446)	(812,927)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	330,383	279,921
Net cash provided by financing activities	330,383	279,921
Net Increase (Decrease) in Cash and Cash Equivalents	1,008,991	(377,494)
Cash and Cash Equivalents, beginning of year	1,770,104	2,147,598
Cash and Cash Equivalents, end of year	<u>\$ 2,779,095</u>	<u>\$ 1,770,104</u>

See Notes to Financial Statements

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

1. Organization

Children's Health Council, Inc. (CHC) is a private, not-for-profit, tax-exempt corporation that provides education and mental health services to the community. CHC's mission is to remove barriers to learning, helping children, teens and young adults become resilient, happy and successful at home, school and in life. CHC's quest is to remove social and emotional barriers to learning and mental health, regardless of language, location or ability to pay. Over the last 65 years, CHC has helped more than 1,000,000 families find the best ways to learn, develop and thrive.

CHC is organized into four distinct service divisions:

Clinical Services provides expert evidence-based evaluations, individualized treatment and innovative programs for families living with learning differences, ADHD, anxiety and depression, and autism. There are two components: a private pay component in Palo Alto, California and a Community Clinic that serves the underserved and is primarily funded by Santa Clara County Medi-Cal. Clinical Services uses a personalized approach to lift barriers and help children, teens, and young adults develop to their greatest potential. Services are provided in Palo Alto, Ravenswood (East Palo Alto/East Menlo Park) and San Jose, California.

Sand Hill School is an independent day school campus located in Palo Alto. 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 student 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 and coordination with CHC therapists, clinicians, and specialists create a unique and happy environment for grades 1-8.

Esther B. Clark Schools (EBC Schools), are nonpublic therapeutic day schools serving students with emotional and behavioral challenges from close to 70 local school districts. Campuses, located in Palo Alto and San Jose, provide transformative education in a caring setting where children with severe emotional and behavioral issues reengage in learning, and develop the positive behaviors necessary to transition back to a district school. EBC Schools serve students between the ages of 7 and 16 who have a primary special education eligibility for Emotionally Disturbed or Other Health Impaired and have not been able to derive benefit from their previous school setting. EBC Schools employ 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, the student is gradually transitioned to ensure successful reintegration, generally within three years.

Children's Health Council, Inc.

Notes to Financial Statements

1. Organization (continued)

Community Connections provides a robust year-round program of community education for parents and teachers, an online resource library, film screenings, events and conferences including the annual Ed Rev Expo. Classes support the agency mission by focusing on insights and answers for education and mental health: signs and tips for ADHD, anxiety and depression, dyslexia and learning differences; executive functioning; cyber bullying; autism; and supporting resilience and success for all children and teens. This service division also leads community engagement with outreach, volunteer programs, parent support groups and community partnerships.

2. Significant Accounting Policies

Financial Statement Presentation:

CHC prepares its financial statements on the accrual basis of accounting under accounting principles generally accepted in the United States of America.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 became effective for CHC as of July 1, 2018, at which time CHC adopted the standard using a retrospective transition approach and has adjusted the presentation of its financial statements as follows:

- Unrestricted net assets have been renamed net assets without donor restrictions.
- Temporarily and permanently restricted net assets have been renamed net assets with donor restrictions
- The financial statements include new disclosures about liquidity and availability of resources (Note 3).
- Investment-related expenses are reported net as part of return on investments.

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

2. Significant Accounting Policies (continued)

Financial Statement Presentation: (continued)

CHC segregates its assets, liabilities and operations into two categories: with donor restrictions and without donor restrictions. CHC's net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions consist of net assets for which there are no donor-imposed restrictions, or such donor-imposed restrictions were temporary and expired during the current or previous periods.

Net assets with donor restrictions consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. Some contributions received from donors are required to be maintained in perpetuity while others expire over time, or when the donor-imposed restriction is satisfied. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

CHC's Board of Directors has designated \$2,000,000 as a facilities reserve for the Palo Alto creek stabilization project, which is reflected as board designated net assets without donor restrictions at June 30, 2019 and 2018. The Board of Directors has also designated \$2,832,195 as funds to function as endowments at June 30, 2019 (\$3,338,128 at June 30, 2018) (Note 8).

Revenue Recognition:

CHC 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions.

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

Patient fees, insurance payments, tuition, school district funding and government contract revenue are recognized in the period in which the services are provided. CHC begins recognizing revenue when there is evidence of an arrangement, fees are fixed or determinable, the service has been delivered, collection is probable and when all other significant obligations have been fulfilled. Amounts received for services not yet provided are recorded as deferred revenue.

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

2. Significant Accounting Policies (continued)

Special Events:

Revenues from special events are reported net of direct costs and expenses. Revenues and expenses associated with special events are as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Rocktoberfest	\$ 473,089	\$ 382,716
Rocktoberfest in-kind goods and services	72,510	85,485
Children’s Health Council Breakfast	<u>160,200</u>	<u>144,115</u>
Total revenues	705,799	612,316
Rocktoberfest cash expenditures	113,569	55,462
Rocktoberfest in-kind goods and services	72,510	85,485
Children’s Health Council Breakfast	<u>45,789</u>	<u>35,607</u>
Total expenses	<u>231,868</u>	<u>176,554</u>
Special events, net	<u>\$ 473,931</u>	<u>\$ 435,762</u>

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 public support, revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the estimated fair value of CHC’s non-marketable investments and the collectability of accounts and pledges receivable.

Cash and Cash Equivalents:

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

Cash and cash equivalents with donor restrictions included in endowment assets of \$231,945 at June 30, 2019 (\$558,104 at June 30, 2018) are not available for operations.

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

2. Significant Accounting Policies (continued)

Investments:

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

Non-marketable securities consist of investments in private equity funds, hedge funds and real estate limited partnerships. 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, if available. 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.

Concentration of Credit Risk:

Financial instruments that potentially subject CHC to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable, pledges receivable and investments. CHC maintains its cash and cash equivalents with one major U.S. financial institution and one major brokerage firm. CHC's cash and cash equivalent deposits with the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC). These deposits exceeded FDIC insurable limits by \$1,547,000 at June 30, 2019 (\$900,000 at June 30, 2018). CHC's cash, cash equivalents and investments held with the brokerage firm exceeded the amount insured by the Securities Investor Protection Corporation by \$30,654,000 at June 30, 2019 (\$30,797,000 at June 30, 2018). Non-marketable investments of \$1,817,000 at June 30, 2019 (\$2,000,000 at June 30, 2018) are not insured.

Pledges receivable are generally from local donors and these donors' credit worthiness is evaluated by CHC on a regular basis. CHC makes judgements as to the ability to collect its outstanding pledges receivable and provide an allowance for potential credit losses as needed. Credit losses have historically been within management's expectation.

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in the CHC's existing accounts receivable. Management performs ongoing evaluations of its customers' financial condition and generally does not require collateral. CHC maintains reserves for credit losses, and such losses have been within management's expectations.

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

2. Significant Accounting Policies (continued)

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, computer software and automobiles; seven years for furniture and fixtures; and 40 to 49 years for the building. Property and equipment is not depreciated until placed in service.

Income Taxes:

CHC 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 CHC 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, 2019 or 2018.

CHC applies the provisions set forth in FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, to account for the uncertainty in income taxes. CHC assessed all income tax positions taken where the statute of limitations remains open. Examples of these tax positions include CHC's tax-exempt status and potential sources of UBTI. CHC 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, 2019 or 2018.

CHC'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. CHC'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.

Children's Health Council, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Statements of Functional Expenses:

The costs of providing CHC'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 operating expenses incurred and estimates of time and effort. Indirect expenses, such as human resources, insurance and information technology-related expenses are allocated based on employee headcount, while indirect expenses including facilities, utilities maintenance and depreciation-related expenses are allocated based on the square footage used by each program or service benefited.

Fair Value of Financial Instruments:

CHC accounts for investments under FASB ASC Topic 820, *Fair Value Measurement*. CHC uses a three-level hierarchy for fair value measurement 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 assets or liabilities are not necessarily an indication of the risk associated with those assets or liabilities.

The three-level hierarchy for fair value measurement 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.

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

CHC reports investments for which fair value is measured using net asset value (NAV) per share of the underlying assets as a practical expedient outside of the fair value hierarchy in accordance with Topic 820.

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

2. Significant Accounting Policies (continued)

Land Lease:

CHC 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. CHC 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.

Recent Accounting Pronouncements Not Yet Effective:

Revenue:

In May 2014, the FASB issued ASC 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 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 CHC as of July 1, 2019 and permits the use of either a retrospective or cumulative effect transition method for its adoption. CHC is currently evaluating the effect Topic 606 will have on its financial statements and related disclosures.

Contributions Received and Contributions Made:

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies the definition of an exchange transaction and provides guidance for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for CHC as of July 1, 2019 for transactions in which it is the resource recipient and July 1, 2020 for transactions in which it is the resource provider. ASU 2018-08 allows a retrospective or modified prospective transition approach for its adoption. CHC believes ASU 2018-08 will have a minimal impact on its financial statements and related disclosures.

Restricted Cash:

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. This standard requires restricted cash and cash equivalents be included as components of total cash and cash equivalents presented on the Statement of Cash Flows and disclosure of the nature of the restrictions in the footnotes. The standard is effective for the CHC as of July 1, 2019, with early adoption permitted using a retrospective transition method. CHC has not early adopted ASU 2016-18.

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

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Fair Value Disclosures:

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. The standard eliminates certain disclosures and modifies other about recurring and nonrecurring fair value measurement disclosures that are required by Topic 820. ASU 2018-13 is expected to reduce the cost of preparing Topic 820 disclosures, while providing more decision-useful information for financial statement users. The standard is effective for CHC as of July 1, 2020 and early adoption is permitted. CHC is currently evaluating the impact of ASU 2018-13 on its fair value measurement disclosures.

Leases:

In February 2016, the FASB issued ASC Topic 842, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities on the Statement of Financial Position. This standard is effective for CHC as of July 1, 2021 and requires the use of a modified retrospective transition approach for its adoption. CHC is currently evaluating the effect Topic 842 will have in its financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the lease disclosed in Note 9 to the financial statements, will be capitalized together with the related lease obligations on the Statement of Financial Position upon the adoption of Topic 842.

Credit Losses:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard replaces the incurred credit loss model for the measurement of credit losses on financial assets measured at amortized cost, including accounts and pledges receivable, and requires entities to recognize an allowance for credit loss for the difference between a receivable's amortized cost basis and the amount the entity expects to collect. ASU 2016-13 is effective for CHC as of July 1, 2021 and requires the use of a modified-retrospective approach with early adoption permitted. CHC believes the effect of adopting ASU 2016-13 will not have a material effect on its financial statements and related disclosures.

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 accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CHC’s financial statements as of and for the year ended June 30, 2018, from which the summarized information was derived.

Reclassifications:

Certain reclassifications have been made to prior year balances to conform with current year presentation.

3. Liquidity and Availability of Resources

The table below represents assets available for general expenditures within one year at June 30, 2019:

Cash and cash equivalents	\$ 2,779,095
Accounts receivable, net	2,485,704
Pledges receivable, net	1,467,740
Investments	<u>32,197,554</u>
Total financial assets	<u>38,930,093</u>

Less amounts not available to be used within one year:

Funds designated by the Board as a facilities reserve	2,000,000
Endowment funds restricted in perpetuity	21,982,218
Appreciation on endowment funds not yet subject to appropriation	6,976,348
Pledges to be received in more than 12 months or restricted for purpose	<u>1,148,757</u>
Financial assets not available to be used within one year	<u>32,107,323</u>
Financial assets available to meet general expenditures within one year	<u>\$ 6,822,770</u>

CHC monitors liquidity and the availability of the organization’s resources on an ongoing basis to ensure adherence to donor’s restrictions, contractual commitments and legal requirements for the use of funds while also maximizing the return on investments.

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

3. Liquidity and Availability of Resources (continued)

CHC considers funds with donor restrictions relating to time or purpose to be unavailable for use in general expenditures. Other contractual commitments may require CHC assets to be maintained for a period of time before becoming accessible through redemption or withdrawal. Such assets bound by contractual commitments are not available for general expenditures within one year.

Board designated funds are not intended to be used for annual operating expenses and are not included in funds available to meet general expenditures over the next year. CHC also has \$2,832,195 in board designated assets within the endowment fund at June 30, 2019. The Board of Directors intends to pass a resolution making available these designated endowment funds for operations within the next 12 months. Accordingly, these assets have been included in the qualitative information above for financial assets available to meet general operations within one year.

4. Pledges Receivable

Pledges receivable consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Endowment campaign	\$ 325,000	\$ 533,672
Programs and other	<u>1,271,526</u>	<u>1,818,526</u>
	1,596,526	2,352,198
Less discount to net present value	<u>(128,786)</u>	<u>(162,468)</u>
Net pledges receivable	<u>\$ 1,467,740</u>	<u>\$ 2,189,730</u>
Amounts receivable in:		
Less than one year	\$ 432,000	\$ 605,672
One to five years	657,000	1,239,000
Greater than five years	<u>507,526</u>	<u>507,526</u>
	<u>\$ 1,596,526</u>	<u>\$ 2,352,198</u>

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

4. Pledges Receivable (continued)

Pledges 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 rates ranging from 3% to 5%. Uncollectible promises are expected to be insignificant.

Pledges receivable include receivables from three irrevocable survivor trusts at June 30, 2019 and 2018 where CHC has been named as a remainder beneficiary. Management has recorded the estimated net present value of CHC’s interest in the trusts at \$501,000 at June 30, 2019 (\$544,000 at June 30, 2018), based on the current estimated fair value of the trust assets and estimated payments to be made to the lifetime beneficiaries.

5. Investments

CHC’s investments are classified as Level I under the fair value hierarchy as follows at June 30, 2019:

Equity securities:	
Domestic	\$ 17,173,385
International	3,186,445
Fixed income funds:	
Domestic	7,760,660
Emerging market funds	1,585,935
Absolute return funds	<u>674,048</u>
Fair value investments	30,380,473

CHC’s investments valued using NAV are as follows:

Hedge funds	1,456,889
Private equity funds	287,652
Real estate limited partnerships	<u>72,540</u>
Total investments	<u>\$ 32,197,554</u>

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

5. Investments (continued)

CHC’s investments are classified as Level I under the fair value hierarchy as follows at June 30, 2018:

Equity securities:	
Domestic	\$ 13,451,014
International	3,613,142
Fixed income funds:	
Domestic	11,523,167
Emerging market funds	1,497,403
Absolute return funds	<u>593,073</u>
Fair value investments	30,677,799

CHC’s investments valued using NAV are as follows:

Hedge funds	1,469,547
Private equity funds	420,289
Real estate limited partnerships	<u>110,434</u>
Total investments	<u>\$ 32,678,069</u>

CHC uses NAV to determine the fair value of investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or which have the attributes of an investment company. The following table lists investments valued using NAV by major category:

	<u>Remaining Life</u>	<u>Number of Funds</u>	<u>Fair Value of Investments June 30, 2019</u>	<u>Unfunded Commitments June 30, 2019</u>	<u>Redemption Notice Period</u>
Hedge Funds (A)	Less than 1 year	3	\$ 1,456,889	\$ -	Quarterly with 90 day notice
Private Equity Funds (B)	2-10 years	2	\$ 287,652	\$ 3,333	Not Eligible
Real Estate Limited Partnerships (C)	2-5 years	2	\$ 72,540	\$ 160,126	Not Eligible

(A) Consists of two funds for which redemption was requested subsequent to year end. Fund strategies include global equity and fixed income funds in market neutral strategies.

(B) Venture capital and buyouts in domestic and international funds.

(C) Domestic and international real estate partnerships.

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

6. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building	\$ 15,016,622	\$ 13,376,761
Equipment	1,095,056	1,032,325
Computer software	791,087	791,087
Furniture and fixtures	877,268	854,945
Automobiles	142,937	142,937
Construction in progress	<u>91,791</u>	<u>173,378</u>
	18,014,761	16,371,433
Less accumulated depreciation	<u>(7,586,596)</u>	<u>(7,036,528)</u>
	<u>\$ 10,428,165</u>	<u>\$ 9,334,905</u>

Construction in progress represents the costs related to the Palo Alto creek stabilization project. CHC expects to incur a further \$2,000,000, which is included in board designated net assets on the accompanying Statements of Financial Position. CHC expects to complete the project in 2020.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Outpatient clinical programs	\$ 254,497	\$ 529,526
Unappropriated endowment fund income	8,500,483	8,639,813
Restricted for time	869,067	1,248,901
Parent education	25,193	67,500
Endowment funds restricted in perpetuity	<u>21,982,218</u>	<u>21,860,507</u>
	<u>\$ 31,631,458</u>	<u>\$ 32,346,247</u>

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

7. Net Assets with Donor Restrictions (continued)

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>2019</u>	<u>2018</u>
Time and purpose restrictions accomplished based on stipulations of the donor:		
Appropriated endowment funds	\$ 1,350,000	\$ -
Outpatient clinical programs	297,000	396,500
Community Connections	67,500	-
Restricted for time	<u>379,834</u>	<u>-</u>
	<u>\$ 2,094,334</u>	<u>\$ 396,500</u>

8. Endowment

CHC’s endowment consists of funds restricted by donors in perpetuity, 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.

CHC’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, CHC retains in perpetuity (a) the original value of gifts donated by donors, (b) the original value of subsequent donor restricted gifts, and (c) accumulations to the donor restricted endowments 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 is subject to appropriation for expenditure by CHC in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as net assets without donor restrictions.

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

8. Endowment (continued)

In accordance with SPMIFA, CHC considers the following factors in appropriating or accumulating donor restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of CHC and the donor restricted endowments;
- (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 CHC;
- (7) CHC's investment policies.

CHC 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 equity investments, mutual funds, hedge 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, where possible. The long-term targeted asset allocation is: 52% equity securities; 30% fixed income securities; 8% real assets; 8% absolute return funds; 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.

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

8. Endowment (continued)

CHC's Investment Committee monitors the portfolio's 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

CHC has a policy of appropriating for distribution each year of up to 5% of the funds held in perpetuity based on the endowment's average fair value for the prior 12 quarters ending March 31 preceding the fiscal year in which the distribution is planned. In establishing this policy, CHC 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 realized and unrealized capital appreciation 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 CHC 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, 2019 and 2018.

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

8. Endowment (continued)

Endowment assets consist of the following at June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 21,982,218	\$ 21,982,218
Board designated endowment funds	2,832,195	-	2,832,195
Unappropriated endowment income	<u>-</u>	<u>8,500,483</u>	<u>8,500,483</u>
Total endowment assets	<u>\$ 2,832,195</u>	<u>\$ 30,482,701</u>	<u>\$ 33,314,896</u>

Endowment assets consist of the following at June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 21,860,507	\$ 21,860,507
Board designated endowment funds	3,338,128	-	3,338,128
Unappropriated endowment income	<u>-</u>	<u>8,639,813</u>	<u>8,639,813</u>
Total endowment assets	<u>\$ 3,338,128</u>	<u>\$ 30,500,320</u>	<u>\$ 33,838,448</u>

Changes in endowment assets for the year ended June 30, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 3,338,128	\$ 30,500,320	\$ 33,838,448
Contributions	-	121,711	121,711
Funds appropriated, net	(575,000)	(1,350,000)	(1,925,000)
Net appreciation	<u>69,067</u>	<u>1,210,670</u>	<u>1,279,737</u>
Endowment assets, end of year	<u>\$ 2,832,195</u>	<u>\$ 30,482,701</u>	<u>\$ 33,314,896</u>

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

8. Endowment (continued)

Changes in endowment assets for the year ended June 30, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 3,811,610	\$ 28,290,521	\$ 32,102,131
Contributions	-	119,577	119,577
Funds appropriated, net	(586,699)	-	(586,699)
Net appreciation	<u>113,217</u>	<u>2,090,222</u>	<u>2,203,439</u>
Endowment assets, end of year	<u>\$ 3,338,128</u>	<u>\$ 30,500,320</u>	<u>\$ 33,838,448</u>

9. Lease Commitments

CHC leases its San Jose campus for both clinical and classroom facilities under a non-cancellable operating lease, which expires in June 2020. CHC may extend the lease for up to an additional five years at the then current market rate. CHC records rent expense on a straight-line basis over the term of the underlying lease. The difference between cash payments required and rent expense is recorded as deferred rent. Rent expense was \$468,000 for the year ended June 30, 2019 (\$515,000 for the year ended June 30, 2018). Future minimum rental payments under the lease are \$491,000 in 2020.

10. Government Contracts Receivable

CHC 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 CHC. Any amounts collected from the County will be recognized as revenue when received.

As of June 30, 2019, the County has open audits for fiscal years 2003 through 2004 and fiscal years 2008 through 2013. Amounts billed by CHC 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 CHC and the County’s other service providers.

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

11. Employee Benefit Plan

In January 2015, CHC adopted a 401(k) plan for its employees. Employees can elect to participate at any time and contribute up to a maximum of 100% of their annual salaries, not to exceed \$19,000 for employees under age 50, and \$25,000 for employees age 50 and above per year. The plan allows for discretionary employer contributions and CHC made a contribution of \$250,000 for the year ended June 30, 2019 (\$200,000 for the year ended June 30, 2018).

12. 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.