



Children's Health Council, Inc.
Financial Statements
June 30, 2021
(With Summarized Comparative Totals
for 2020)

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., which comprise the statement of financial position as of June 30, 2021, 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 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 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, 2021, 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, 2020 financial statements, and we have expressed an unmodified audit opinion on those audited statements in our report dated October 23, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Frank, Rimmerman & Co. LLP

Palo Alto, California
September 15, 2021

Children's Health Council, Inc.
Statement of Financial Position
June 30, 2021 (with Summarized Comparative Totals for 2020)

	June 30, 2021			June 30, 2020
	Without Donor Restrictions	With Donor Restrictions	Total	
ASSETS				
Cash and Cash Equivalents	\$ 4,453,328	\$ 1,040,381	\$ 5,493,709	\$ 3,510,957
Accounts Receivable, net of allowance for doubtful accounts of \$25,000 (\$51,430 at June 30, 2020)	2,201,052	-	2,201,052	2,879,636
Pledges Receivable, net	-	33,215,073	33,215,073	1,459,063
Prepaid Expenses and Other Assets	131,991	-	131,991	131,091
Investments	2,050,109	42,311,500	44,361,609	34,033,140
Property and Equipment, net	10,154,464	-	10,154,464	10,304,576
Total assets	<u>\$ 18,990,944</u>	<u>\$ 76,566,954</u>	<u>\$ 95,557,898</u>	<u>\$ 52,318,463</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 92,983	\$ -	\$ 92,983	\$ 129,336
Accrued expenses and other current liabilities	3,145,915	-	3,145,915	2,844,227
Deferred revenue	1,093,474	-	1,093,474	1,366,496
Total liabilities	4,332,372	-	4,332,372	4,340,059
Commitments (Notes 5, 6 and 9)				
Net Assets				
Without donor restrictions				
Undesignated	12,658,572	-	12,658,572	7,174,768
Board designated				
Facilities	2,000,000	-	2,000,000	2,000,000
Funds functioning as endowments	-	-	-	4,876,361
With donor restrictions	-	76,566,954	76,566,954	33,927,275
Total net assets	<u>14,658,572</u>	<u>76,566,954</u>	<u>91,225,526</u>	<u>47,978,404</u>
Total liabilities and net assets	<u>\$ 18,990,944</u>	<u>\$ 76,566,954</u>	<u>\$ 95,557,898</u>	<u>\$ 52,318,463</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Activities
Year Ended June 30, 2021 (with Summarized Comparative Totals for 2020)

	Year Ended June 30, 2021			Year Ended
	Without Donor Restrictions	With Donor Restrictions	Total	June 30, 2020 Total
Public Support				
Contributions	\$ 1,517,356	\$ 31,770,707	\$ 33,288,063	\$ 3,444,807
Special events, net	231,058	-	231,058	356,598
Foundation and trust grants	1,640,500	4,940,910	6,581,410	2,993,429
	<u>3,388,914</u>	<u>36,711,617</u>	<u>40,100,531</u>	<u>6,794,834</u>
Revenue				
Patient fees and insurance payments	3,558,682	-	3,558,682	3,732,833
School district funding	10,790,347	-	10,790,347	10,839,912
Government contracts	2,726,687	-	2,726,687	2,995,117
Tuition	2,445,419	-	2,445,419	2,892,859
Other income	218,429	-	218,429	256,879
	<u>19,739,564</u>	<u>-</u>	<u>19,739,564</u>	<u>20,717,600</u>
Net Assets Released from Restrictions	<u>2,494,940</u>	<u>(2,494,940)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	25,623,418	34,216,677	59,840,095	27,512,434
Expenses				
Program services:				
Clinical services	7,867,629	-	7,867,629	8,355,416
School services	12,037,282	-	12,037,282	12,280,212
Community Connections	394,240	-	394,240	505,606
	<u>20,299,151</u>	<u>-</u>	<u>20,299,151</u>	<u>21,141,234</u>
Supporting services:				
Administration, management and general	2,777,417	-	2,777,417	2,539,208
Fundraising	1,012,820	-	1,012,820	1,228,305
Marketing	960,286	-	960,286	874,185
	<u>4,750,523</u>	<u>-</u>	<u>4,750,523</u>	<u>4,641,698</u>
Total expenses	<u>25,049,674</u>	<u>-</u>	<u>25,049,674</u>	<u>25,782,932</u>
Increase in net assets from operations	573,744	34,216,677	34,790,421	1,729,502
Other Revenue, net				
Return on investments	33,699	8,423,002	8,456,701	1,099,035
Loss on disposal of property and equipment	-	-	-	(166,971)
Total other revenue, net	<u>33,699</u>	<u>8,423,002</u>	<u>8,456,701</u>	<u>932,064</u>
Change in Net Assets	607,443	42,639,679	43,247,122	2,661,566
Net Assets, beginning of year	14,051,129	33,927,275	47,978,404	45,316,838
Net Assets, end of year	<u>\$ 14,658,572</u>	<u>\$ 76,566,954</u>	<u>\$ 91,225,526</u>	<u>\$ 47,978,404</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021

	Clinical Services	School Services	Community Connections	Total Program Services	Administration, Management and General	Fundraising	Marketing	Total Supporting Services	Total
Salaries and Compensation	\$ 5,584,437	\$ 7,302,744	\$ 264,572	\$ 13,151,753	\$ 1,468,269	\$ 674,561	\$ 494,789	\$ 2,637,619	\$ 15,789,372
Benefits and Payroll Taxes	1,144,537	1,794,007	48,050	2,986,594	184,762	98,935	76,551	360,248	3,346,842
Outside Contractors	491,204	334,160	30,990	856,354	194,251	162,216	351,274	707,741	1,564,095
Student Transportation	-	932,958	-	932,958	-	-	-	-	932,958
Office Supplies	85,306	250,536	1,800	337,642	42,003	18,910	12,992	73,905	411,547
Rent Expense	55,324	438,242	-	493,566	-	-	-	-	493,566
Operating Expenses	128,311	114,266	32,609	275,186	422,625	123,015	17,963	563,603	838,789
Facilities Related	120,029	333,564	5,626	459,219	107,483	2,344	-	109,827	569,046
Utilities and Maintenance	106,514	203,178	3,152	312,844	66,243	1,313	1,912	69,468	382,312
Insurance	28,172	63,626	1,333	93,131	8,143	3,633	2,805	14,581	107,712
Bad Debt	-	-	-	-	166,951	-	-	166,951	166,951
Total Expenses before Depreciation	7,743,834	11,767,281	388,132	19,899,247	2,660,730	1,084,927	958,286	4,703,943	24,603,190
Depreciation	123,795	270,001	6,108	399,904	116,687	2,545	2,033	121,265	521,169
Total expenses by function	7,867,629	12,037,282	394,240	20,299,151	2,777,417	1,087,472	960,319	4,825,208	25,124,359
Less expenses included in revenue on the statement of activities									
Outside Contractors	-	-	-	-	-	(73,155)	(33)	(73,188)	(73,188)
Operating Expenses	-	-	-	-	-	(1,497)	-	(1,497)	(1,497)
Total expenses	\$ 7,867,629	\$ 12,037,282	\$ 394,240	\$ 20,299,151	\$ 2,777,417	\$ 1,012,820	\$ 960,286	\$ 4,750,523	\$ 25,049,674
Percentage of Total Expenses	31%	48%	2%	81%	11%	4%	4%	19%	100%

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2020

	Clinical Services	School Services	Community Connections	Total Program Services	Administration, Management and General	Fundraising	Marketing	Total Supporting Services	Total
Salaries and Compensation	\$ 5,981,910	\$ 7,491,683	\$ 343,157	\$ 13,816,750	\$ 1,633,709	\$ 793,429	\$ 477,135	\$ 2,904,273	\$ 16,721,023
Benefits and Payroll Taxes	1,264,563	1,725,241	54,262	3,044,066	216,696	133,360	67,834	417,890	3,461,956
Outside Contractors	469,017	306,422	37,621	813,060	66,670	133,881	257,232	457,783	1,270,843
Student Transportation	-	1,045,288	-	1,045,288	-	-	-	-	1,045,288
Office Supplies	131,426	355,343	12,879	499,648	76,795	7,819	42,674	127,288	626,936
Rent Expense	47,394	358,579	-	405,973	-	-	-	-	405,973
Operating Expenses	138,958	174,383	42,378	355,719	262,482	150,503	23,730	436,715	792,434
Facilities Related	102,342	309,678	4,753	416,773	90,812	1,981	-	92,793	509,566
Utilities and Maintenance	63,390	179,560	3,008	245,958	64,355	1,253	816	66,424	312,382
Insurance	29,189	56,551	1,271	87,011	7,765	3,464	2,675	13,904	100,915
Total Expenses before Depreciation	8,228,189	12,002,728	499,329	20,730,246	2,419,284	1,225,690	872,096	4,517,070	25,247,316
Depreciation	127,227	277,484	6,277	410,988	119,924	2,615	2,089	124,628	535,616
Total expenses	<u>\$ 8,355,416</u>	<u>\$ 12,280,212</u>	<u>\$ 505,606</u>	<u>\$ 21,141,234</u>	<u>\$ 2,539,208</u>	<u>\$ 1,228,305</u>	<u>\$ 874,185</u>	<u>\$ 4,641,698</u>	<u>\$ 25,782,932</u>
Percentage of Total Expenses	<u>32%</u>	<u>48%</u>	<u>2%</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.
Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 43,247,122	\$ 2,661,566
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	521,169	535,616
Change in discount on pledges receivable	(23,010)	31,677
Net realized and unrealized gain on investments	(7,730,704)	(196,612)
Contributions restricted for endowment	(100,707)	(240,186)
Allowance for doubtful accounts	(26,430)	1,430
Loss on disposal of property and equipment	-	166,971
Changes in operating assets and liabilities:		
Accounts receivable	705,014	(395,362)
Pledges receivable	(31,733,000)	(123,000)
Prepaid expenses and other assets	(900)	-
Accounts payable	(36,353)	90,014
Accrued expenses and other current liabilities	301,688	471,218
Deferred revenue	(273,022)	(393,684)
Net cash provided by operating activities	4,850,867	2,609,648
Cash Flows from Investing Activities		
Proceeds from sale and distribution of investments	8,918,602	22,546,626
Purchase of investments	(11,516,367)	(24,185,600)
Purchase of property and equipment	(371,057)	(578,998)
Net cash used in investing activities	(2,968,822)	(2,217,972)
Cash Flows from Financing Activities		
Cash received from pledges restricted for endowment	100,707	340,186
Net cash provided by financing activities	100,707	340,186
Net Increase in Cash and Cash Equivalents	1,982,752	731,862
Cash and Cash Equivalents, beginning of year	3,510,957	2,779,095
Cash and Cash Equivalents, end of year	\$ 5,493,709	\$ 3,510,957

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 transform young lives by providing culturally-responsible best-in-class learning and mental health services to families from diverse backgrounds regardless of language, location or ability to pay. CHC's quest is to remove social and emotional barriers to learning and mental health, regardless of language, location or ability to pay. For nearly 70 years, CHC has helped more than 1,000,000 families find the best ways to learn, develop and thrive.

CHC is organized into five 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 serving 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, California. 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, California, 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 conference. 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.

The Schwab Learning Center (SLC) at CHC opening in September 2021 will provide supportive services to university and high school students with learning and attention challenges as well as the mental health issues that often accompany them. The SLC at CHC is supported by a generous endowment from The Charles and Helen Schwab Foundation (Note 8) and will be open to university and secondary education students who are either referred or self-referred due to challenges with coursework. It will offer a suite of services that includes: working with learning specialists, psychoeducational evaluations, mentoring, short term therapy and community education.

2. Significant Accounting Policies

Financial Statement Presentation:

CHC prepares its financial statements in accordance with accounting standards for not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (US GAAP). The standards require not-for-profit organizations to segregate net assets into two categories: without donor restrictions and with 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.

Children's Health Council, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

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, 2021 and 2020. The Board of Directors has also designated certain funds to be classified as functioning as endowments of \$4,876,361 at June 30, 2020. In fiscal year 2021, CHC moved the funds functioning as endowments to undesignated net assets with a goal to designate \$5 million in funds as an operating reserve in fiscal 2022 (Note 8).

Revenue Recognition:

CHC recognizes revenue for revenue-generating activities under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). The Foundation determines revenue recognition through the following steps:

- Identification of the contract or agreement with a customer or grantor
- Identification of the performance obligations in the contract or agreement
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract or agreement
- Recognition of revenue when, or as, CHC satisfies a performance obligation

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

Contributions:

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. Through June 30, 2020, contributions and promises to give received by CHC have historically been without 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.

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

2. Significant Accounting Policies (continued)

In-Kind Contributions:

CHC records various types of in-kind contributions, including tangible assets and utilities. In fiscal 2021, CHC did not receive in-kind contributions (\$225,456 in fiscal 2020 that are included in contributions in the Statement of Activities, including in-kind contributions associated with special events). The amounts reflected in the financial statements as in-kind contributions are offset by the like amounts of expenses and are recognized in the Statements of Functional Expenses.

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>2021</u>	<u>2020</u>
Rocktoberfest	\$ -	\$ 385,131
Rocktoberfest in-kind goods and services	-	76,239
Children’s Health Council Breakfast	232,859	134,915
Voices of Compassion	<u>69,365</u>	<u>-</u>
Total revenues	302,224	596,285
Rocktoberfest cash expenditures	-	105,238
Rocktoberfest in-kind goods and services	-	76,239
Children’s Health Council Breakfast	46,137	58,210
Voices of Compassion	<u>25,029</u>	<u>-</u>
Total expenses	<u>71,166</u>	<u>239,687</u>
Special events, net	<u>\$ 231,058</u>	<u>\$ 356,598</u>

Risks and Uncertainties:

The global impact of the novel coronavirus (COVID-19) continues to be an evolving situation. The virus has disrupted much of society, impacted global travel and supply chains, and adversely impacted global commercial activity in most industries. The continued rapid development of this situation and uncertainty regarding potential economic recovery precludes any prediction as to the ultimate adverse impact of COVID-19 on financial markets and economic conditions. Such conditions, which may be across industries, sectors or geographies, may impact CHC’s operating performance in the near term. The estimates and assumptions underlying these financial statements are based on the information available, including judgments about the financial markets and economic conditions which may change over time.

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 US GAAP 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 \$860,126 at June 30, 2021 (\$392,395 at June 30, 2020) are not available for operations.

Investments:

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

Non-marketable securities consist of investments in hedge funds, private equity funds and real estate limited partnerships. The non-marketable investments are valued using the net asset value (NAV) per share of each entity's underlying assets as a practical expedient for measuring fair value. These investments are subject to restriction on resale, are carried at estimated fair value, as determined by the fund manager or general partner, and are subject to the audit of each investment's financial statements, if available. In determining fair value, the fund manager or general partner 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.

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

2. Significant Accounting Policies (continued)

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 \$3,596,000 at June 30, 2021 (\$2,785,000 at June 30, 2020). CHC's cash, cash equivalents and investments held with the brokerage firm exceeded the amount insured by the Securities Investor Protection Corporation by \$43,821,000 at June 30, 2021 (\$32,663,000 at June 30, 2020). Non-marketable investments of \$1,081,000 at June 30, 2021 (\$1,702,000 at June 30, 2020) are not insured.

Accounts receivable are contract assets 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.

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.

Property and Equipment and Depreciation:

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 financial statements.

Children's Health Council, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Income Taxes: (continued)

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, 2021 or 2020.

CHC applies the provisions set forth in FASB 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, 2021 or 2020.

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.

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.

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

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

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.

Investments in marketable securities valued at quoted market prices are classified as Level I investments under the fair value hierarchy. CHC reports investments for which fair value is measured using NAV per share of the underlying assets outside of the fair value hierarchy in accordance with Topic 820.

Effective July 1, 2020, CHC adopted the requirements of FASB Accounting Standards Update (ASU) 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 eliminates certain disclosures and modifies other disclosures about required recurring and nonrecurring fair value measurement while providing more decision-useful information for financial statement users. All amounts and disclosures set forth in these financial statements and accompanying notes comply with the new standard.

Land Lease:

CHC leases the land on which its Palo Alto 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.

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

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective:

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, 2022 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, 2023 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.

Contributed Nonfinancial Assets:

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-For Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 was issued to increase the transparency for measuring contributed nonfinancial assets and is effective for CHC as of July 1, 2021 requiring the use of the retrospective approach for its adoption. Early adoption is permitted. CHC is evaluating the effect ASU 2020-07 will have on its financial statements.

ASU 2020-07 will require contributions from donors to be reported on the Statements of Financial Position as either contributions of cash and other financial assets or nonfinancial assets. Not-for-profit entities will be required to provide details as to the types of nonfinancial assets received, any donor-imposed restrictions on the assets, whether the contributed nonfinancial assets were either monetized or utilized during the reporting period, the entity's accounting policy for monetizing the assets instead of utilizing the assets, and a description of the valuation techniques and inputs used to arrive at a fair value measurement for the donated assets under Topic 820 at initial recognition.

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 US GAAP. Accordingly, such information should be read in conjunction with CHC's financial statements as of and for the year ended June 30, 2020, from which the summarized information was derived.

3. Liquidity and Availability of Resources

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,493,709	\$ 3,510,957
Accounts receivable, net	2,201,052	2,879,636
Pledges receivable, net	33,215,073	1,459,063
Investments	<u>44,361,609</u>	<u>34,033,140</u>
Financial assets available to meet general expenditures	<u>85,271,443</u>	<u>41,882,796</u>
Less amounts not available to be used within one year:		
Funds designated by the Board as facilities reserve (Note 2)	2,000,000	2,000,000
Endowment funds restricted in perpetuity (Note 8)	53,993,111	22,222,404
Appreciation on endowment funds not yet subject to appropriation (Note 8)	15,234,264	8,019,878
Pledges to be received in more than 12 months or restricted for purpose (Note 4)	<u>740,782</u>	<u>1,332,526</u>
Financial assets not available to be used within one year	<u>71,968,157</u>	<u>33,574,808</u>
Financial assets available to meet general expenditures within one year	<u>\$ 13,303,286</u>	<u>\$ 8,307,988</u>

CHC monitors liquidity and the availability of its 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.

Appreciation on endowment funds not yet subject to appropriation are subject to a 5% appropriation and are stated as a gross amount.

4. Pledges Receivable

Pledges receivable consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Endowment campaign	\$ 31,525,000	\$ 225,000
Programs and other	<u>1,827,526</u>	<u>1,394,526</u>
	33,352,526	1,619,526
Less discount to net present value	<u>(137,453)</u>	<u>(160,463)</u>
Net pledges receivable	<u>\$ 33,215,073</u>	<u>\$ 1,459,063</u>
Amounts receivable in:		
Less than one year	\$ 32,445,000	\$ 287,000
One to five years	400,000	825,000
Greater than five years	<u>507,526</u>	<u>507,526</u>
	<u>\$ 33,352,526</u>	<u>\$ 1,619,526</u>

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 1% to 3%. Uncollectible promises are expected to be insignificant.

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

4. Pledges Receivable (continued)

Pledges receivable include receivables from three irrevocable survivor trusts at June 30, 2021 and 2020 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 \$523,000 at June 30, 2021 (\$495,000 at June 30, 2020), 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, 2021:

Equity securities:	
Domestic	\$ 5,296,791
International	7,668,247
Fixed income funds:	
Domestic	3,744,189
Emerging market funds	19,656,665
Commodities	872,894
Absolute return funds	<u>6,041,700</u>
Fair value investments	43,280,486

CHC's investments valued using NAV are as follows:

Hedge funds	842,076
Private equity funds	196,975
Real estate limited partnerships	<u>42,072</u>
Total investments	<u>\$ 44,361,609</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, 2020:

Equity securities:	
Domestic	\$ 13,366,863
International	6,054,811
Fixed income funds:	
Domestic	6,086,967
Emerging market funds	1,894,391
Commodities	534,803
Absolute return funds	<u>4,393,214</u>
Fair value investments	32,331,049

CHC’s investments valued using NAV are as follows:

Hedge funds	1,441,127
Private equity funds	200,552
Real estate limited partnerships	<u>60,412</u>
Total investments	<u>\$ 34,033,140</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 at June 30, 2021:

	<u>Remaining Life</u>	<u>Number of Funds</u>	<u>Fair Value of Investments June 30, 2021</u>	<u>Unfunded Commitments June 30, 2021</u>	<u>Redemption Notice Period</u>
Hedge Funds (A)	Less than 1 year	3	\$ 842,076	\$ -	Quarterly with 90 day notice
Private Equity Funds (B)	2-10 years	2	\$ 196,975	\$ 3,333	Not Eligible
Real Estate Limited Partnerships (C)	2-5 years	2	\$ 42,072	\$ 160,126	Not Eligible

(A) Consists of one fund 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>2021</u>	<u>2020</u>
Building	\$ 15,174,565	\$ 15,130,845
Equipment	1,344,436	1,207,563
Computer software	88,216	88,216
Furniture and fixtures	908,439	908,439
Automobiles	142,937	142,937
Construction in progress	<u>515,136</u>	<u>324,672</u>
	18,173,729	17,802,672
Less accumulated depreciation	<u>(8,019,265)</u>	<u>(7,498,096)</u>
	<u>\$ 10,154,464</u>	<u>\$ 10,304,576</u>

Construction in progress represents the costs related to the Palo Alto creek stabilization project. CHC expects to incur a further \$3,000,000 in 2022 and 2023 to complete the Palo Alto creek stabilization project. Of this \$3,000,000, \$2,000,000 is included in board designated net assets on the Statements of Financial Position.

7. Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Endowment funds restricted in perpetuity	\$ 53,993,111	\$ 22,222,404
Unappropriated endowment fund income	15,234,264	8,019,878
Restricted for time	6,195,026	2,703,748
Parent education	1,144,553	749,245
Outpatient clinical programs	<u>-</u>	<u>232,000</u>
	<u>\$ 76,566,954</u>	<u>\$ 33,927,275</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>2021</u>	<u>2020</u>
Time and purpose restrictions accomplished based on stipulations of the donor:		
Appropriated endowment funds	\$ 1,233,615	\$ 1,364,178
Outpatient clinical programs	316,014	182,000
Restricted for time	945,311	250,000
Parent education	-	10,193
Community Connections	-	15,000
	<u>\$ 2,494,940</u>	<u>\$ 1,821,371</u>

8. Endowment

CHC’s endowment at June 30, 2021 consists of funds restricted by donors in perpetuity and accumulated earnings on such funds, and funds designated by the Board of Directors to function as endowments. As required by US GAAP, 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 and 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: 61% equity securities; 21% fixed income securities; 9% real assets; 7% 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 using a smoothing formula which applies the current spend rate to the average endowment valuation from the prior 48 months. 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 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, 2021 and 2020.

In fiscal 2021, the Council received a pledge of \$32,300,000 to support The SLC at CHC (Note 1), of which \$31,400,000 will be restricted by the donor to establish an endowment fund (SLC Fund). The investment and spending policies for these funds will be consistent with CHC’s endowment policy with the exception of the long-term targeted asset allocation is: 70% equity securities; 28% fixed income securities; 2% cash and cash equivalents and investments in alternative investments are prohibited. In addition, the SLC Fund will use a blended benchmark consisting of the following unmanaged market indices:

	Index	Weighting
a)	International equity: MSCI ACWI ex-US	70%
b)	Fixed income: Barclays Aggregate Index	30%

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

8. Endowment (continued)

Endowment assets consist of the following at June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 53,993,111	\$ 53,993,111
Unappropriated endowment income	<u>-</u>	<u>15,234,264</u>	<u>15,234,264</u>
Total endowment assets	<u>\$ -</u>	<u>\$ 69,227,375</u>	<u>\$ 69,227,375</u>

Endowment assets consist of the following at June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 22,222,404	\$ 22,222,404
Board designated endowment funds	4,876,361	-	4,876,361
Unappropriated endowment income	<u>-</u>	<u>8,019,878</u>	<u>8,019,878</u>
Total endowment assets	<u>\$ 4,876,361</u>	<u>\$ 30,242,282</u>	<u>\$ 35,118,643</u>

Changes in endowment assets for the year ended June 30, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 4,876,361	\$ 30,242,282	\$ 35,118,643
Contributions	-	31,770,707	31,770,707
Funds appropriated, net	-	(1,233,615)	(1,233,615)
Funds undesignated	(4,885,061)	-	(4,885,061)
Net appreciation	<u>8,700</u>	<u>8,448,001</u>	<u>8,456,701</u>
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 69,227,375</u>	<u>\$ 69,227,375</u>

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

8. Endowment (continued)

Changes in endowment assets for the year ended June 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 2,832,195	\$ 30,482,701	\$ 33,314,896
Contributions	-	240,186	240,186
Funds designated by board	2,628,704	-	2,628,704
Funds appropriated, net	(800,000)	(1,364,178)	(2,164,178)
Net appreciation	<u>215,462</u>	<u>883,573</u>	<u>1,099,035</u>
Endowment assets, end of year	<u>\$ 4,876,361</u>	<u>\$ 30,242,282</u>	<u>\$ 35,118,643</u>

9. Lease Commitments

CHC leases its San Jose campus for both clinical and classroom facilities under a non-cancellable operating lease, originally expiring in June 2020. CHC may extend the lease for up to an additional five years at the then current market rate. In August 2020, CHC extended the lease for an additional five years through June 2025. 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 \$494,000 for the year ended June 30, 2021 (\$406,000 for the year ended June 30, 2020).

Future minimum lease payments under the extended non-cancelable operating lease agreement are as follows:

Years ending June 30:

2022	\$ 506,000
2023	521,000
2024	537,000
2025	<u>553,000</u>
	<u>\$ 2,117,000</u>

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

10. Employee Benefit Plan

CHC has a defined contribution 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 for the year ended June 30, 2021. The plan allows for discretionary employer contributions and CHC made a contribution of \$250,000 for the year ended June 30, 2021 (\$235,000 for the year ended June 30, 2020).

11. Subsequent Events

In July and August 2021, CHC received \$31,649,000 of the outstanding \$31,850,000 balance related to the SLC pledge receivable at June 30, 2021 and expect to receive the remaining \$201,000 in September 2021.

Management has reviewed subsequent events and transactions that occurred after the Statement of Financial Position date through September 15, 2021. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with US GAAP. Management has determined that there are no unrecognized subsequent events that require additional disclosure.