



Children's Health Council, Inc.

Financial Statements

June 30, 2018

(With Comparative Totals for 2017)

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, 2018, 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, 2018, 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, 2017 financial statements, and we have expressed an unmodified audit opinion on those audited statements in our report dated October 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 14, 2018

Children's Health Council, Inc.
Statement of Financial Position
June 30, 2018 (with Summarized Comparative Totals for 2017)

	June 30, 2018				June 30, 2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
ASSETS					
Cash and Cash Equivalents	\$ 1,014,666	\$ 197,334	\$ 558,104	\$ 1,770,104	\$ 2,147,598
Accounts Receivable, net of allowance for doubtful accounts of \$50,000	1,853,518	-	-	1,853,518	1,302,051
Pledges Receivable, net	-	1,648,593	541,137	2,189,730	1,489,102
Prepaid Expenses and Other Assets	189,395	-	-	189,395	137,877
Investments	3,276,990	8,639,813	20,761,266	32,678,069	30,677,099
Property and Equipment, net	9,334,905	-	-	9,334,905	9,658,076
Total assets	<u>\$ 15,669,474</u>	<u>\$ 10,485,740</u>	<u>\$ 21,860,507</u>	<u>\$ 48,015,721</u>	<u>\$ 45,411,803</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 70,420	\$ -	\$ -	\$ 70,420	\$ 142,646
Accrued expenses and other liabilities	1,530,744	-	-	1,530,744	1,340,525
Deferred revenue	1,319,907	-	-	1,319,907	1,261,123
Total liabilities	2,921,071	-	-	2,921,071	2,744,294
Commitments (Notes 4 and 9)					
Net Assets					
Unrestricted					
Undesignated	5,748,403	-	-	5,748,403	6,414,957
Board designated	7,000,000	-	-	7,000,000	7,000,000
Temporarily restricted	-	10,485,740	-	10,485,740	7,511,622
Permanently restricted	-	-	21,860,507	21,860,507	21,740,930
Total net assets	12,748,403	10,485,740	21,860,507	45,094,650	42,667,509
Total liabilities and net assets	<u>\$ 15,669,474</u>	<u>\$ 10,485,740</u>	<u>\$ 21,860,507</u>	<u>\$ 48,015,721</u>	<u>\$ 45,411,803</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Activities
Year Ended June 30, 2018 (with Summarized Comparative Totals for 2017)

	Year Ended June 30, 2018				Year Ended
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	June 30, 2017 Total
Public Support					
Donations	\$ 3,757,544	\$ -	\$ 119,577	\$ 3,877,121	\$ 3,233,120
Special events, net	435,762	-	-	435,762	482,261
Foundation and trust grants	-	1,280,396	-	1,280,396	638,851
	<u>4,193,306</u>	<u>1,280,396</u>	<u>119,577</u>	<u>5,593,279</u>	<u>4,354,232</u>
Revenue					
Patient fees and insurance payments	2,233,430	-	-	2,233,430	1,676,813
School district funding	8,453,539	-	-	8,453,539	7,012,497
Government contracts	3,090,704	-	-	3,090,704	2,542,379
Tuition	2,204,200	-	-	2,204,200	1,991,000
Other income	321,968	-	-	321,968	256,480
	<u>16,303,841</u>	<u>-</u>	<u>-</u>	<u>16,303,841</u>	<u>13,479,169</u>
Net Assets Released from Restrictions	<u>396,500</u>	<u>(396,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>20,893,647</u>	<u>883,896</u>	<u>119,577</u>	<u>21,897,120</u>	<u>17,833,401</u>
Expenses					
Program services:					
Outpatient clinical services	6,471,622	-	-	6,471,622	5,474,579
School services	10,226,758	-	-	10,226,758	8,295,231
Community Connections	977,609	-	-	977,609	-
	<u>17,675,989</u>	<u>-</u>	<u>-</u>	<u>17,675,989</u>	<u>13,769,810</u>
Supporting services:					
Administration, management and general	2,486,076	-	-	2,486,076	2,261,898
Fundraising	917,059	-	-	917,059	830,056
Marketing	594,294	-	-	594,294	421,485
	<u>3,997,429</u>	<u>-</u>	<u>-</u>	<u>3,997,429</u>	<u>3,513,439</u>
Total expenses	<u>21,673,418</u>	<u>-</u>	<u>-</u>	<u>21,673,418</u>	<u>17,283,249</u>
Increase (decrease) in net assets from operations	<u>(779,771)</u>	<u>883,896</u>	<u>119,577</u>	<u>223,702</u>	<u>550,152</u>
Investment Income					
Interest, dividends and earnings, net	173,010	558,284	-	731,294	668,388
Net realized and unrealized gain (loss)	(59,793)	1,531,938	-	1,472,145	1,728,586
Net investment income	<u>113,217</u>	<u>2,090,222</u>	<u>-</u>	<u>2,203,439</u>	<u>2,396,974</u>
Change in Net Assets	<u>(666,554)</u>	<u>2,974,118</u>	<u>119,577</u>	<u>2,427,141</u>	<u>2,947,126</u>
Net Assets, beginning of year	<u>13,414,957</u>	<u>7,511,622</u>	<u>21,740,930</u>	<u>42,667,509</u>	<u>39,720,383</u>
Net Assets, end of year	<u>\$ 12,748,403</u>	<u>\$ 10,485,740</u>	<u>\$ 21,860,507</u>	<u>\$ 45,094,650</u>	<u>\$ 42,667,509</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	28,371	169,810	190,181	44,131	37,278	271,590	441,400
Facilities Related	86,326	259,034	4,197	349,557	80,528	5,012	-	85,540	435,097
EdRev! Expo	-	-	303,853	303,853	-	20,629	-	20,629	324,482
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.
Statement of Functional Expenses
Year Ended June 30, 2017

	Outpatient Clinical Services	School Services	Total Program Services	Administration, Management and General	Fundraising	Marketing	Total Supporting Services	Total
Salaries and Compensation	\$ 3,833,969	\$ 4,825,542	\$ 8,659,511	\$ 872,585	\$ 472,300	\$ 199,646	\$ 1,544,531	\$ 10,204,042
Benefits and Payroll Taxes	823,964	1,214,521	2,038,485	710,777	81,285	26,806	818,868	2,857,353
Outside Contractors	322,903	201,782	524,685	134,342	130,945	154,049	419,336	944,021
Student Transportation	-	1,063,162	1,063,162	-	-	-	-	1,063,162
Office Supplies	64,801	285,044	349,845	61,259	82,978	12,356	156,593	506,438
Rent Expense	65,976	22,958	88,934	-	-	-	-	88,934
Operating Expenses	65,296	76,248	141,544	225,577	54,336	23,723	303,636	445,180
Facilities Related	73,885	146,696	220,581	62,479	1,363	-	63,842	284,423
Utilities and Maintenance	60,754	122,114	182,868	54,131	2,309	912	57,352	240,220
Insurance	24,184	46,403	70,587	18,197	1,820	1,820	21,837	92,424
Total Expenses before Depreciation	5,335,732	8,004,470	13,340,202	2,139,347	827,336	419,312	3,385,995	16,726,197
Depreciation	138,847	290,761	429,608	122,551	2,720	2,173	127,444	557,052
Total expenses	<u>\$ 5,474,579</u>	<u>\$ 8,295,231</u>	<u>\$ 13,769,810</u>	<u>\$ 2,261,898</u>	<u>\$ 830,056</u>	<u>\$ 421,485</u>	<u>\$ 3,513,439</u>	<u>\$ 17,283,249</u>
Percentage of Total Expenses	<u>32%</u>	<u>48%</u>	<u>80%</u>	<u>13%</u>	<u>5%</u>	<u>2%</u>	<u>20%</u>	<u>100%</u>

See Notes to Financial Statements

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

	Years Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 2,427,141	\$ 2,947,126
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	607,273	557,052
Change in discount on pledges receivable	108,527	(42,116)
Net realized and unrealized gain on investments	(1,472,145)	(1,728,586)
Contributions restricted for endowment	(119,577)	(611,685)
Changes in operating assets and liabilities:		
Accounts receivable	(551,467)	406,807
Pledges receivable	(969,499)	(741,501)
Prepaid expenses and other assets	(51,518)	(88,414)
Accounts payable and other current liabilities	117,993	334,213
Deferred revenue	58,784	113,069
Net cash provided by operating activities	155,512	1,145,965
Cash Flows from Investing Activities		
Proceeds from sale and distribution of investments	8,781,429	9,955,499
Purchase of investments	(9,310,254)	(13,137,682)
Purchase of property and equipment	(284,102)	(428,267)
Net cash used in investing activities	(812,927)	(3,610,450)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	279,921	1,238,410
Net cash provided by financing activities	279,921	1,238,410
Net Decrease in Cash and Cash Equivalents	(377,494)	(1,226,075)
Cash and Cash Equivalents, beginning of year	2,147,598	3,373,673
Cash and Cash Equivalents, end of year	\$ 1,770,104	\$ 2,147,598

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 60 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, and events including the EdRev Expo held at AT&T Park in San Francisco, California. 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.

Several Community Connections programs are the result of a grant agreement with Parents Education Network (PEN) signed in July 2017 under which PEN assigned all of its existing educational and mental health programs to CHC. CHC had agreed to operate the programs in furtherance of PEN's primary purpose pursuant to PEN's Articles of Incorporation, as required under the Internal Revenue Code (the Code). PEN was dissolved effective January 2018.

2. Significant Accounting Policies

Financial Statement Presentation:

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

Unrestricted net assets 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. These assets are available for use at the discretion of CHC's Board of Directors.

In 2017, CHC's Board of Directors designated \$7,000,000 as a reserve fund, which is reflected as Board Designated Unrestricted Net Assets at June 30, 2018. Of this reserve, \$5,000,000 is designated for operating reserves, and \$2,000,000 is designated for the creek stabilization reserve (Note 6).

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

2. Significant Accounting Policies (continued)

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 unrestricted net assets if the restrictions expire in the fiscal year in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction as to time or use expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges are stated at their net present value based on the expected date of receipt using a discount rate. 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 classified as deferred revenue.

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>2018</u>	<u>2017</u>
Rocktoberfest	\$ 382,716	\$ 481,489
Rocktoberfest in-kind goods and services	85,485	81,425
Children’s Health Council Breakfast	<u>144,115</u>	<u>144,346</u>
Total revenues	612,316	707,260
Rocktoberfest cash expenditures	55,462	102,237
Rocktoberfest in-kind goods and services	85,485	81,425
Children’s Health Council Breakfast	<u>35,607</u>	<u>41,337</u>
Total expenses	<u>176,554</u>	<u>224,999</u>
Special events, net	<u>\$ 435,762</u>	<u>\$ 482,261</u>

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

2. Significant Accounting Policies (continued)

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of 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.

Permanently restricted cash of \$588,104 at June 30, 2018 (\$654,154 at June 30, 2017) is restricted cash not available for operations and is included in endowment assets (Note 8).

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.

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 balances with the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC). Cash balances exceeded FDIC insurable limits by \$900,000 at June 30, 2018 (\$1,045,000 at June 30, 2017). CHC's cash and investment balances held with the brokerage firm exceeded the amount insured by the Securities Investor Protection Corporation by \$30,797,000 at June 30, 2018 (\$28,748,000 at June 30, 2017). Non-marketable investments of \$2,000,000 at June 30, 2018 (\$2,172,000 at June 30, 2017) 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 Company's existing accounts receivable. Management performs ongoing evaluations of its customers' financial condition and generally does not require collateral. The Company maintains reserves for credit losses, and such losses have been within management's expectations.

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.

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

2. Significant Accounting Policies (continued)

Income Taxes:

CHC has been determined to be exempt from federal and California income taxes under Section 501(c)(3) of the 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, 2018 or 2017.

CHC applies the provisions set forth in Financial Accounting Standards Board (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 remained 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, 2018 or 2017.

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 the direct salaries incurred or square footage used by each program or service benefited.

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

2. Significant Accounting Policies (continued)

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

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

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

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

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

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 as a practical expedient in accordance with Topic 820. Investments valued using NAV are reported outside of the fair value hierarchy.

Level III Valuation Techniques:

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

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

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

Valuation Process:

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

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:

Presentation of Financial Statements:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes the financial reporting requirements for not-for-profit organizations by reducing the number of net asset classes from three to two ("with donor restrictions" and "without donor restrictions"); requiring expenses to be reported by function and nature; and providing disclosures on the entity's operating measures and liquidity. ASU 2016-14 is effective for CHC as of July 1, 2018 and requires a retrospective transition approach for its adoption. CHC is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

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

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

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 January 1, 2019 for transactions in which it is the resource recipient and January 1, 2020 for transactions in which it is the resource provider. ASU 2018-09 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.

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.

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, 2020 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.

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

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Credit Losses:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*. 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 the 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.

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.

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 measurements 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.

Comparative Financial Information:

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CHC’s financial statements as of and for the year ended June 30, 2017, from which the summarized information was derived.

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

2. Significant Accounting Policies (continued)

Reclassifications:

Certain prior year balances have been reclassified to conform to current year presentation.

3. Pledges Receivable

Pledges receivable consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Endowment campaign	\$ 533,672	\$ 694,016
Programs and other	<u>1,818,526</u>	<u>849,027</u>
	2,352,198	1,543,043
Less discount to net present value	<u>(162,468)</u>	<u>(53,941)</u>
Net pledges receivable	<u>\$ 2,189,730</u>	<u>\$ 1,489,102</u>
Amounts receivable in:		
Less than one year	\$ 605,672	\$ 451,500
One to five years	1,239,000	1,091,543
Greater than five years	<u>507,526</u>	<u>-</u>
	<u>\$ 2,352,198</u>	<u>\$ 1,543,043</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 3% to 5%. Uncollectible promises are expected to be insignificant.

Pledges receivable at June 30, 2018 include receivables from three irrevocable survivor trusts (three at June 30, 2017) 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 \$544,000 at June 30, 2018 (\$641,000 at June 30, 2017), based on the current estimated fair value of the trust assets and estimated payments to be made to the lifetime beneficiaries.

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

4. Investments

CHC’s investments valued under the fair value hierarchy as of June 30, 2018 are as follows:

	<u>Level I</u>	<u>Level III</u>	<u>Total</u>
Equity securities:			
Domestic	\$ 13,451,014	\$ -	\$ 13,451,014
International	3,613,142	-	3,613,142
Income funds:			
Domestic	11,523,167	-	11,523,167
Emerging market funds	1,497,403	-	1,497,403
Absolute return funds	593,073	-	593,073
Hedge fund	<u>-</u>	<u>60,930</u>	<u>60,930</u>
Fair value investments	<u>\$ 30,677,799</u>	<u>\$ 60,930</u>	30,738,729

CHC’s investments valued using NAV are as follows:

Hedge funds	1,408,617
Private equity funds	420,289
Real estate limited partnerships	<u>110,434</u>
Total investments	<u>\$ 32,678,069</u>

The following table summarizes the quantitative inputs and assumptions used for the investment categorized as Level III under the fair value hierarchy as of June 30, 2018:

	<u>Fair Value at June 30, 2018</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
Hedge fund	\$ 60,930	Market, cost and income approaches	Financial ratios and illiquidity

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

4. Investments (continued)

CHC’s investments valued under the fair value hierarchy as of June 30, 2017 are as follows:

	<u>Level I</u>	<u>Level III</u>	<u>Total</u>
Equity securities:			
Domestic	\$ 11,326,720	\$ -	\$ 11,326,720
International	2,494,666	-	2,494,666
Income funds:			
Domestic	10,711,462	-	10,711,462
Emerging market funds	1,591,460	-	1,591,460
Natural resource funds	1,374,704	-	1,374,704
Absolute return funds	1,006,411	-	1,006,411
Hedge fund	<u>-</u>	<u>76,104</u>	<u>76,104</u>
Fair value investments	<u>\$ 28,505,423</u>	<u>\$ 76,104</u>	28,581,527

CHC’s investments valued using NAV are as follows:

Hedge funds	1,384,926
Private equity funds	524,886
Real estate limited partnerships	<u>185,760</u>
Total investments	<u>\$ 30,677,099</u>

The following table summarizes the quantitative inputs and assumptions used for investments categorized as Level III under the fair value hierarchy as of June 30, 2017:

	<u>Fair Value at June 30, 2017</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
Hedge fund	\$ 76,104	Market, cost and income approaches	Financial ratios and illiquidity

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

4. Investments (continued)

The table below presents a roll-forward of the amounts in the Statements of Financial Position for the years ended June 30, 2018 and 2017 (including the change in fair value) for the non-marketable investments classified by CHC within Level III of the fair value hierarchy. When a determination is made to classify an investment within Level III of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement; however, Level III investments typically include, in addition to the unobservable Level III inputs, observable components (that is, components that are actively quoted or can be validated to market-based sources). The losses in the table may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

Fair value, June 30, 2016	\$ 76,526
Net investment income	4,535
Distribution from sale of investment	(591)
Unrealized loss	<u>(4,363)</u>
Fair value, June 30, 2017	76,104
Net investment loss	(2,875)
Distribution from sale of investment	<u>(12,299)</u>
Fair value, June 30, 2018	<u>\$ 60,930</u>

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

4. Investments (continued)

CHC uses NAV to determine the fair value of all the underlying 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, 2018</u>	<u>Unfunded Commitments June 30, 2018</u>	<u>Redemption Notice Period</u>
Hedge Funds (A)	Less than 1 year	3	\$ 1,408,617	\$ -	Quarterly with 90 day notice
Private Equity Funds (B)	2-10 years	2	\$ 420,289	\$ 1,830	Not Eligible
Real Estate Limited Partnerships (C)	2-5 years	2	\$ 110,434	\$ 159,512	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

5. Investment Income

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

Net investment income consists of the following for the year ended June 30, 2018:

	Interest, Dividends and Earnings	Net Realized/ Unrealized Gains	Investment Management Expenses	Total
Marketable securities	\$ 828,816	\$ 1,409,771	\$ (101,543)	\$ 2,137,044
Non-marketable securities	<u>6,858</u>	<u>62,374</u>	<u>(2,837)</u>	<u>66,395</u>
	<u>\$ 835,674</u>	<u>\$ 1,472,145</u>	<u>\$ (104,380)</u>	<u>\$ 2,203,439</u>

Net investment income consists of the following for the year ended June 30, 2017:

	Interest, Dividends and Earnings	Net Realized/ Unrealized Gains	Investment Management Expenses	Total
Marketable securities	\$ 722,025	\$ 1,533,542	\$ (99,810)	\$ 2,155,757
Non-marketable securities	<u>46,173</u>	<u>195,044</u>	<u>-</u>	<u>241,217</u>
	<u>\$ 768,198</u>	<u>\$ 1,728,586</u>	<u>\$ (99,810)</u>	<u>\$ 2,396,974</u>

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

6. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Building	\$ 13,376,761	\$ 13,313,407
Equipment	1,032,325	993,882
Computer software	791,087	791,087
Furniture and fixtures	854,945	846,018
Automobiles	142,937	142,937
Construction in progress	<u>173,378</u>	<u>-</u>
	16,371,433	16,087,331
Less accumulated depreciation	<u>(7,036,528)</u>	<u>(6,429,255)</u>
	<u>\$ 9,334,905</u>	<u>\$ 9,658,076</u>

Construction in progress represents the costs to remediate the creek stabilization project. CHC expects to incur \$2,000,0000, which is included in Board designated net assets on the accompanying Statement of Financial Position. CHC expects to complete the project in 2020.

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

7. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Outpatient clinical programs	\$ 529,526	\$ 496,501
Unappropriated endowment fund income	8,639,813	6,549,591
Restricted for time	1,248,901	465,530
Parent education	<u>67,500</u>	<u>-</u>
	<u>\$ 10,485,740</u>	<u>\$ 7,511,622</u>

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

	<u>2018</u>	<u>2017</u>
Time and purpose restrictions accomplished based on stipulations of the donor:		
Outpatient clinical programs	\$ 396,500	\$ 440,000
Parent education	-	220,000
School programs	<u>-</u>	<u>8,000</u>
	<u>\$ 396,500</u>	<u>\$ 668,000</u>

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

8. Endowment

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

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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CHC in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as unrestricted net assets.

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

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

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

8. Endowment (continued)

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

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

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

CHC has a policy of appropriating for distribution each year 5% of the permanently restricted assets average fair value of the prior 12 quarters ending March 31 preceding the fiscal year in which the distribution is planned. In establishing this policy, 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, 2018 and 2017.

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

8. Endowment (continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</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>-</u>	<u>8,639,813</u>
Total endowment assets	<u>\$ 3,338,128</u>	<u>\$ 8,639,813</u>	<u>\$ 21,860,507</u>	<u>\$ 33,838,448</u>

Endowment assets consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ -	\$ 21,740,930	\$ 21,740,930
Board designated endowment funds	3,811,610	-	-	3,811,610
Unappropriated endowment income	<u>-</u>	<u>6,549,591</u>	<u>-</u>	<u>6,549,591</u>
Total endowment assets	<u>\$ 3,811,610</u>	<u>\$ 6,549,591</u>	<u>\$ 21,740,930</u>	<u>\$ 32,102,131</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>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 3,811,610	\$ 6,549,591	\$ 21,740,930	\$ 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>-</u>	<u>2,203,439</u>
Endowment assets, end of year	<u>\$ 3,338,128</u>	<u>\$ 8,639,813</u>	<u>\$ 21,860,507</u>	<u>\$ 33,838,448</u>

Changes in endowment assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 1,764,905	\$ 4,202,285	\$ 21,129,245	\$ 27,096,435
Contributions	-	-	611,685	611,685
Board designated funds	2,500,000	-	-	2,500,000
Funds appropriated, net	(700,000)	-	-	(700,000)
Net appreciation	<u>246,705</u>	<u>2,347,306</u>	<u>-</u>	<u>2,594,011</u>
Endowment assets, end of year	<u>\$ 3,811,610</u>	<u>\$ 6,549,591</u>	<u>\$ 21,740,930</u>	<u>\$ 32,102,131</u>

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

9. Lease Commitments

CHC leases its San Jose facility for a clinical facility 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 leases.

The difference between cash payments required and rent expense is recorded as deferred rent. Rent expense was \$515,000 for the year ended June 30, 2018 (\$89,000 for the year ended June 30, 2017).

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

2019	\$	477,000
2020		<u>491,000</u>
Total	\$	<u>968,000</u>

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, 2018, 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 after employment and contribute up to a maximum of 100% of their annual salaries, not to exceed \$18,500 for employees under age 50, and \$24,500 for employees age 50 and above per year. The plan allows for discretionary employer contributions and a contribution of \$200,000 was made for the year ended June 30, 2018 (\$174,000 for the year ended June 30, 2017).

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.