



**Children's Health Council, Inc.
Financial Statements
June 30, 2023
(With Summarized Comparative Totals
for 2022)**

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



Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the accompanying financial statements of Children's Health Council, Inc. (CHC), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHC as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of CHC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CHC's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CHC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CHC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the CHC's financial statements as of and for the year ended June 30, 2022, and we expressed an unmodified opinion on those audited financial statements in our report dated November 9, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the financial statements from which it has been derived.

Frank, Rimmerman & Co. LLP

San Jose, California
September 28, 2023

Children's Health Council, Inc.
Statement of Financial Position
June 30, 2023 (with Summarized Comparative Totals for 2022)

	June 30, 2023			June 30, 2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 3,877,544	\$ 313,380	\$ 4,190,924	\$ 7,213,312
Accounts receivable, net of allowance for doubtful accounts of \$50,000 and \$25,000	3,537,251	-	3,537,251	1,861,000
Pledges receivable, net	-	2,508,198	2,508,198	2,754,956
Prepaid expenses and other current assets	141,315	-	141,315	131,991
Total current assets	7,556,110	2,821,578	10,377,688	11,961,259
Investments	418,508	79,119,294	79,537,802	74,056,313
Property and Equipment, net	11,817,733	-	11,817,733	10,553,433
Operating Lease Right of Use Assets, net	1,173,076	-	1,173,076	-
Total assets	<u>\$ 20,965,427</u>	<u>\$ 81,940,872</u>	<u>\$ 102,906,299</u>	<u>\$ 96,571,005</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 337,546	\$ -	\$ 337,546	\$ 116,302
Accrued expenses and other current liabilities	2,678,270	-	2,678,270	3,452,032
Deferred revenue	934,727	-	934,727	1,333,679
Operating lease liabilities	533,563	-	533,563	-
Total current liabilities	4,484,106	-	4,484,106	4,902,013
Operating Lease Liabilities, net of current portion	816,135	-	816,135	-
Total liabilities	5,300,241	-	5,300,241	4,902,013
Commitments (Notes 5, 6 and 9)				
Net Assets				
Without donor restrictions				
Undesignated	15,665,186	-	15,665,186	13,168,737
Board designated facilities reserve	-	-	-	2,000,000
With donor restrictions	-	81,940,872	81,940,872	76,500,255
Total net assets	15,665,186	81,940,872	97,606,058	91,668,992
Total liabilities and net assets	<u>\$ 20,965,427</u>	<u>\$ 81,940,872</u>	<u>\$ 102,906,299</u>	<u>\$ 96,571,005</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Activities
Year Ended June 30, 2023 (with Summarized Comparative Totals for 2022)

	Year Ended June 30, 2023			Year Ended
	Without Donor Restrictions	With Donor Restrictions	Total	June 30, 2022 Total
Public Support				
Contributions	\$ 1,782,349	\$ 1,727,348	\$ 3,509,697	\$ 5,643,038
Special events, net	598,711	-	598,711	262,158
Foundation and trust grants	852,903	2,624,449	3,477,352	13,235,918
	<u>3,233,963</u>	<u>4,351,797</u>	<u>7,585,760</u>	<u>19,141,114</u>
Revenue				
Patient fees and insurance payments	5,846,757	-	5,846,757	4,663,333
School district funding	13,826,726	-	13,826,726	12,318,786
Government contracts	4,033,275	-	4,033,275	2,584,050
Tuition	3,116,501	-	3,116,501	2,561,956
Other income	223,604	-	223,604	209,304
	<u>27,046,863</u>	<u>-</u>	<u>27,046,863</u>	<u>22,337,429</u>
Net Assets Released from Restrictions	<u>6,285,869</u>	<u>(6,285,869)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>36,566,695</u>	<u>(1,934,072)</u>	<u>34,632,623</u>	<u>41,478,543</u>
Expenses				
Program services:				
Clinical services	13,384,011	-	13,384,011	10,883,730
School services	15,702,865	-	15,702,865	13,906,248
Community engagement	647,302	-	647,302	407,604
	<u>29,734,178</u>	<u>-</u>	<u>29,734,178</u>	<u>25,197,582</u>
Supporting services:				
Administration, management and general	3,852,272	-	3,852,272	3,385,228
Fundraising	1,322,636	-	1,322,636	1,313,250
Marketing	1,186,634	-	1,186,634	1,013,924
	<u>6,361,542</u>	<u>-</u>	<u>6,361,542</u>	<u>5,712,402</u>
Total expenses	<u>36,095,720</u>	<u>-</u>	<u>36,095,720</u>	<u>30,909,984</u>
Increase (decrease) in net assets from operations	470,975	(1,934,072)	(1,463,097)	10,568,559
Other Revenue (Expense)				
Return (Loss) on investments	25,474	7,374,689	7,400,163	(10,125,093)
Total other revenue (expense), net	<u>25,474</u>	<u>7,374,689</u>	<u>7,400,163</u>	<u>(10,125,093)</u>
Change in Net Assets	496,449	5,440,617	5,937,066	443,466
Net Assets, beginning of year	<u>15,168,737</u>	<u>76,500,255</u>	<u>91,668,992</u>	<u>91,225,526</u>
Net Assets, end of year	<u>\$ 15,665,186</u>	<u>\$ 81,940,872</u>	<u>\$ 97,606,058</u>	<u>\$ 91,668,992</u>

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2023

	Clinical Services	School Services	Community Engagement	Total Program Services	Administration, Management and General	Fundraising	Marketing	Total Supporting Services	Total
Salaries and Compensation	\$ 9,854,121	\$ 8,827,998	\$ 397,566	19,079,685	\$ 2,249,627	\$ 989,373	\$ 589,903	\$ 3,828,903	\$ 22,908,588
Benefits and Payroll Taxes	1,870,635	2,090,718	63,966	4,025,319	362,099	150,083	118,046	630,228	4,655,547
Outside Contractors	634,172	381,458	113,634	1,129,264	120,948	24,874	336,931	482,753	1,612,017
Student Transportation	-	2,167,575	-	2,167,575	-	-	-	-	2,167,575
Office Supplies	252,619	379,692	6,016	638,327	57,237	35,869	19,551	112,657	750,984
Lease Expense	66,601	386,971	-	453,572	-	-	-	-	453,572
Operating Expenses	49,859	253,204	43,010	346,073	300,677	132,343	6,954	439,974	786,047
Subscriptions	43,831	37,363	957	82,151	13,313	17,622	70,576	101,511	183,662
Software Licenses/Warranties	100,587	22	-	100,609	15,731	58,997	2,037	76,765	177,374
Advertising	-	-	-	-	95,916	-	34,994	130,910	130,910
Bank Service Charges	-	-	-	-	193,369	22,197	-	215,566	215,566
Facilities Related	211,097	534,330	10,003	755,430	191,101	4,168	-	195,269	950,699
Utilities and Maintenance	136,474	305,444	4,642	446,560	97,494	2,034	2,745	102,273	548,833
Insurance	34,457	55,523	1,116	91,096	10,826	3,151	2,770	16,747	107,843
Bad Debt	-	-	-	-	21,813	-	-	21,813	21,813
Total expenses before depreciation	13,254,453	15,420,298	640,910	29,315,661	3,730,151	1,440,711	1,184,507	6,355,369	35,671,030
Depreciation	129,558	282,567	6,392	418,517	122,121	2,673	2,127	126,921	545,438
Total expenses by function	13,384,011	15,702,865	647,302	29,734,178	3,852,272	1,443,384	1,186,634	6,482,290	36,216,468
Less expenses included in revenue on the statement of activities	-	-	-	-	-	(120,748)	-	(120,748)	(120,748)
Total expenses	\$ 13,384,011	\$ 15,702,865	\$ 647,302	\$ 29,734,178	\$ 3,852,272	\$ 1,322,636	\$ 1,186,634	\$ 6,361,542	\$ 36,095,720
Percentage of Total Expenses	37%	43%	2%	82%	11%	4%	3%	18%	100%

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2022

	Clinical Services	School Services	Community Engagement	Total Program Services	Administration, Management and General	Fundraising	Marketing	Total Supporting Services	Total
Salaries and Compensation	\$ 7,870,293	\$ 7,902,287	\$ 300,805	\$ 16,073,385	\$ 1,839,258	\$ 995,009	\$ 486,865	\$ 3,321,132	\$ 19,394,517
Benefits and Payroll Taxes	1,570,994	1,840,688	54,332	3,466,014	268,072	129,169	79,559	476,800	3,942,814
Outside Contractors	584,749	472,346	8,685	1,065,780	325,069	3,000	391,367	719,436	1,785,216
Student Transportation	-	1,857,429	-	1,857,429	-	-	-	-	1,857,429
Office Supplies	169,702	260,572	1,847	432,121	89,289	30,168	16,692	136,149	568,270
Rent Expense	55,162	420,857	-	476,019	-	-	-	-	476,019
Operating Expenses	20,657	122,442	22,913	166,012	94,984	84,279	102	179,365	345,377
Subscriptions	91,424	27,483	588	119,495	2,150	76,659	5,601	84,410	203,905
Software Licenses/Warranties	82,355	1,531	-	83,886	7,023	32,910	-	39,933	123,819
Advertising	-	-	-	-	78,513	131	26,621	105,265	105,265
Bank Service Charges	-	350	-	350	135,472	9,863	-	145,335	145,685
Facilities Related	154,571	409,466	7,330	571,367	140,042	3,054	-	143,096	714,463
Utilities and Maintenance	133,817	261,541	3,758	399,116	79,511	1,566	2,413	83,490	482,606
Insurance	26,953	60,874	1,275	89,102	7,791	3,475	2,684	13,950	103,052
Bad Debt	-	-	-	-	202,071	-	-	202,071	202,071
Total expenses before Depreciation	10,760,677	13,637,866	401,533	24,800,076	3,269,245	1,369,283	1,011,904	5,650,432	30,450,508
Depreciation	123,053	268,382	6,071	397,506	115,983	2,538	2,020	120,541	518,047
Total expenses by function	10,883,730	13,906,248	407,604	25,197,582	3,385,228	1,371,821	1,013,924	5,770,973	30,968,555
Less expenses included in revenue on the statement of activities	-	-	-	-	-	(58,571)	-	(58,571)	(58,571)
Total expenses	\$ 10,883,730	\$ 13,906,248	\$ 407,604	\$ 25,197,582	\$ 3,385,228	\$ 1,313,250	\$ 1,013,924	\$ 5,712,402	\$ 30,909,984
Percentage of Total Expenses	35%	45%	2%	82%	11%	4%	3%	18%	100%

See Notes to Financial Statements

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

	Years Ended June 30,	
	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ 5,937,066	\$ 443,466
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	545,429	518,047
Amortization of operating lease right of use assets	435,554	
Change in discount on pledges receivable	(203,557)	331,633
Net realized and unrealized (gain) loss on investments	(5,581,283)	11,970,886
Contributions restricted for endowment	(4,348)	(14,924)
Allowance for doubtful accounts	25,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,701,251)	340,052
Pledges receivable	450,315	30,128,484
Prepaid expenses and other current assets	(9,324)	-
Accounts payable	(1,576,716)	23,319
Accrued expenses and other current liabilities	(773,762)	306,117
Deferred revenue	(398,952)	240,205
Operating lease liabilities	(258,932)	-
Net cash (used in) provided by operating activities	(3,114,761)	44,287,285
Cash Flows from Investing Activities		
Proceeds from sale and distribution of investments	18,765,458	24,606,300
Purchase of investments	(18,665,664)	(66,271,890)
Purchase of property and equipment	(11,769)	(917,016)
Net cash provided by (used in) investing activities	88,025	(42,582,606)
Cash Flows from Financing Activities		
Cash received from pledges restricted for endowment	4,348	14,924
Net cash provided by financing activities	4,348	14,924
Net (Decrease) Increase in Cash and Cash Equivalents	(3,022,388)	1,719,603
Cash and Cash Equivalents, beginning of year	7,213,312	5,493,709
Cash and Cash Equivalents, end of year	\$ 4,190,924	\$ 7,213,312

Schedule of Non-Cash Investing and Financing Activities

Capitalization of operating lease right of use assets and lease liabilities and reclassification of deferred rent upon adoption of new lease standard	\$ 1,816,801	\$ -
Amounts payable for construction in progress	\$ 1,797,960	\$ -

See Notes to Financial Statements

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

1. Organization

Children's Health Council, Inc. (CHC) is a 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. For 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:

Catherine T. Harvey Center for 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 that 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, other language-based learning differences, and attention and social challenges, to prepare them for 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 2-8.

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 this assistance in their previous school settings. 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 a local public school, the student is gradually transitioned from the EBC School to ensure successful reintegration, generally within three years.

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

1. Organization (continued)

The Schwab Learning Center (SLC) at CHC provides 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 is open to university and secondary education students who are either referred or self-referred due to challenges with coursework. It offers a suite of services that includes working with learning specialists; psychoeducational evaluations; mentoring; short term therapy; and community education.

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

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 (U.S.) (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)

Financial Statement Presentation: (continued)

CHC's Board of Directors (the Board) 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, 2022. The funds for the creek stabilization project were spent during the year ended June 30, 2023.

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). CHC determines revenue recognition through the following steps:

- Identification of the contract or agreement with a customer
- 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 and insurance payment revenue is reported at the amount reflecting the consideration to which CHC expects to be entitled in exchange for providing the services. The amount due is from patients and third-party payors. Generally, CHC bills the patients after services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by CHC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred. CHC believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time are related to patients receiving services in the clinics.

CHC determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payers or implicit price concessions provided to other patients. CHC determines its estimates of explicit and implicit price concessions based on contractual agreements and historical experience.

School district funding revenue is reported at annually negotiated rates with local Special Education Local Plan Areas applied to actual daily attendance factors at the EBC Schools, incorporating tuition, transportation, clinical services and school lunch functions.

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

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

Government contracts revenue is reported at annually negotiated rates with Santa Clara County and San Mateo County applied to actual units of services (minutes) provided to Medi-Cal program beneficiaries.

Tuition revenue is reported at the amount of annual tuition and other fees, net of financial aid awards, applied against Sand Hill School enrollment factors.

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.

Multiple year pledges are recorded at their net present value based on the expected period of receipt using a discount rate. CHC records an allowance against a pledge receivable when collectability is uncertain.

Contributed Nonfinancial Assets:

A substantial number of unpaid volunteers have donated significant amounts of their time to the Council's program services and fund-raising events. However, due primarily to the nature of the services provided, the value of these services has not been reflected in the financial statements.

Donated assets, if significant in amount, are recorded at their estimated fair value, provided the Council has a clearly measurable and objective basis for determining the value. Historically, donated assets have not been significant.

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

2. Significant Accounting Policies (continued)

Special Events:

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

	<u>2023</u>	<u>2022</u>
Children’s Health Council Breakfast	\$ 488,031	\$ 320,729
SteelMike Shootout	224,292	-
SteelMike Shootout in-kind goods and services	<u>7,136</u>	<u>-</u>
Total revenues	719,459	320,729
Children’s Health Council Breakfast	81,003	58,571
SteelMike Shootout	32,609	-
SteelMike Shootout in-kind goods and services	<u>7,136</u>	<u>-</u>
Total expenses	<u>120,748</u>	<u>58,571</u>
Special events, net	<u>\$ 598,711</u>	<u>\$ 262,158</u>

Use of Estimates:

The preparation of financial statements in conformity with 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 an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents with donor restrictions included in endowment assets of \$313,380 at June 30, 2023 (\$1,532,394 at June 30, 2022) are not available for operations.

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

2. Significant Accounting Policies (continued)

Investments:

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

Non-marketable securities consist of investments in 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.

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) up to \$250,000. These deposits exceeded the FDIC insurable limit by \$3,616,000 at June 30, 2023 (\$2,717,000 at June 30, 2022). CHC's cash, cash equivalents and investments held with the brokerage firm exceeded the amount insured by the Securities Investor Protection Corporation by \$77,722,000 at June 30, 2023 (\$72,826,000 at June 30, 2022). Non-marketable investments of \$1,316,000 at June 30, 2023 (\$1,231,000 at June 30, 2022) are not insured.

Accounts receivable are contract assets recorded at the invoiced amount. Gross accounts receivable were \$3,587,000 and \$1,886,000 at June 30, 2023 and 2022, respectively (\$1,456,000 at June 30, 2021). 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.

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

2. Significant Accounting Policies (continued)

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 are 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.

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, 2023 or 2022.

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 its tax filing positions will be sustained upon tax examinations; therefore, no liability for uncertain income tax positions has been recorded at June 30, 2023 or 2022.

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 such as facilities, utilities maintenance and depreciation-related expenses are allocated based on the 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 Measurement:

CHC accounts for investments under Topic 820. 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 at the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing assets or liabilities are not necessarily an indication of the risk associated with those assets or liabilities.

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

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

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

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

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

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.

Leases:

In 2021, under FASB ASC Topic 840, *Leases* (Topic 840), rent expense on the Company's operating facility leases (Note 9), which contained scheduled rent increases, was calculated on a straight-line basis with the difference recorded as deferred rent on the Statement of Financial Position.

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

2. Significant Accounting Policies (continued)

Leases: (continued)

Effective July 1, 2022 (the Adoption Date), CHC adopted FASB ASC Topic 842, *Leases* (Topic 842), which requires all entities that lease assets with terms of greater than twelve months to capitalize the assets and related liabilities on the balance sheet, which had not previously required capitalization. CHC adopted Topic 842 using the modified retrospective approach for each lease that existed at the Adoption Date. Leases are classified as either an operating or finance lease under Topic 842, with classification affecting the pattern of expense recognition in operations.

CHC used practical expedients under Topic 842 that allowed it to not reassess existing leases or lease classifications and to use hindsight in determining the lease terms. CHC has also elected an accounting policy to not capitalize assets with a lease term of twelve months or less if the underlying lease does not provide an option to purchase the assets at the end of the lease term or an option to extend the lease longer than twelve months that management was not reasonably certain to exercise at the Adoption Date or subsequent lease commencement date. As a result of the practical expedients, there was no adjustment to net assets required at the Adoption Date.

CHC elected an accounting policy election to not capitalize leases with terms of twelve months or less and do not include an option to purchase the underlying asset on the Statement of Financial Position, similar to the operating lease accounting under Topic 840. Information related to leases at and for the year ended June 30, 2023 are presented under Topic 842, while prior period amounts have not adjusted and continue to be reported under the accounting guidance in Topic 840.

The adoption of Topic 842 resulted in the recording of operating lease liabilities of \$1,816,801 and operating lease right of use (ROU) assets (ROU assets) of \$1,608,630, and the reclassification of deferred rent of \$208,171 for its operating facility leases at the Adoption Date.

A ROU asset represents the right to use a specified asset for the stated lease term, and a lease liability represents the legal obligation to make lease payments. A ROU asset and liability are recognized at the Adoption Date or subsequent lease commencement date based on the present value of lease payments over the expected lease term. CHC uses the implicit interest rate in a lease when it is readily determinable. Since most operating leases do not provide the lessor's implicit interest rate to determine the present value of lease payments, management has elected an accounting policy election to use the risk-free discount rate for a period comparable to the lease term in the application of Topic 842 based on the information available at the Adoption Date or subsequent lease commencement. A ROU asset also includes any lease payments previously made and excludes any landlord lease incentives offered in the lease.

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

2. Significant Accounting Policies (continued)

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.

Recent Accounting Pronouncement Not Yet Effective:

Credit Losses:

In June 2016, the FASB issued ASC Topic 326, *Credit Losses*. The standard requires all entities to evaluate, on an ongoing basis, future expected credit losses for financial instruments recorded at amortized cost, including accounts and pledges receivable. The standard introduces the “expected credit loss methodology” and creates the current expected loss model, which replaces the “incurred credit loss” model for the measurement of credit losses. Topic 326 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 adoption of the standard will not have a material effect on its financial statements and related disclosures.

Comparative Financial Information:

The financial statements include certain prior year summarized comparative information. This information does not include sufficient detail to constitute a presentation in accordance with GAAP. Accordingly, such information should be read in conjunction with CHC’s financial statements as of and for the year ended June 30, 2022, from which the summarized information was derived.

Reclassifications:

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

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

3. Liquidity and Availability of Resources

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,190,924	\$ 7,213,312
Accounts receivable, net	3,537,251	1,861,000
Pledges receivable, net	2,508,198	2,754,956
Investments	<u>79,537,802</u>	<u>74,056,313</u>
 Total financial assets	 <u>89,774,175</u>	 <u>85,885,581</u>
 Less amounts not available to be used within one year:		
Endowment funds restricted in perpetuity (Note 8)	58,470,982	56,743,634
Appreciation on endowment funds not yet subject to appropriation (Note 8)	9,673,269	5,179,449
Pledges to be received in more than 12 months or restricted for purpose (Note 4)	2,383,198	2,629,956
Funds designated by the Board as facilities reserve (Note 2)	<u>-</u>	<u>2,000,000</u>
 Financial assets not available to be used within one year	 <u>72,499,931</u>	 <u>66,553,039</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 17,274,244</u>	 <u>\$ 19,332,542</u>

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

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.

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

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

4. Pledges Receivable

Pledges receivable consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Endowment campaign	\$ 2,115,260	\$ 2,599,000
Programs and other	<u>658,467</u>	<u>625,042</u>
	2,773,727	3,224,042
Less discount to net present value	<u>(265,529)</u>	<u>(469,086)</u>
Net pledges receivable	<u>\$ 2,508,198</u>	<u>\$ 2,754,956</u>
Amounts receivable in:		
Less than one year	\$ 125,000	\$ 125,000
One to five years	1,303,659	1,713,000
Greater than five years	<u>1,345,068</u>	<u>1,386,042</u>
	<u>\$ 2,773,727</u>	<u>\$ 3,224,042</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 rate of 3%. Uncollectible promises are expected to be insignificant.

Pledges receivable include receivables from three irrevocable survivor trusts at June 30, 2023 and 2022 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, 2023 (\$518,000 at June 30, 2022), 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

5. Investments

CHC’s investments are classified as Level I under the fair value hierarchy as follows at June 30, 2023:

Cash and cash equivalents:	
Money market funds	\$ 816,795
Equity securities:	
Domestic	2,722,992
Fixed income funds:	
Domestic	12,005,541
Exchange traded funds:	<u>62,676,915</u>
Fair value investments	78,222,243

CHC’s investments valued using NAV are as follows:

Hedge funds	\$ 1,024,188
Private equity funds	279,573
Real estate limited partnerships	<u>11,798</u>
Total investments	<u>\$ 79,537,802</u>

CHC’s investments are classified as Level I under the fair value hierarchy as follows at June 30, 2022:

Equity securities:	
Domestic	\$ 3,380,605
International	2,862,431
Fixed income funds:	
Domestic	14,844,019
Emerging market funds	4,949,688
Commodities	486,466
Exchange traded funds	<u>46,302,303</u>
Fair value investments	72,825,512

CHC’s investments valued using NAV are as follows:

Hedge funds	935,810
Private equity funds	267,032
Real estate limited partnerships	<u>27,959</u>
Total investments	<u>\$ 74,056,313</u>

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

5. Investments (continued)

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, 2023:

	<u>Remaining Life</u>	<u>Number of Funds</u>	<u>Fair Value of Investments June 30, 2023</u>	<u>Unfunded Commitments June 30, 2023</u>	<u>Redemption Notice Period</u>
Hedge Funds (A)	Less than 1 year	3	\$ 1,024,188	\$ -	Quarterly with 90 day notice
Private Equity Funds (B)	2-10 years	2	\$ 279,573	\$ 730,000	Not Eligible
Real Estate Limited Partnerships (C)	2-5 years	2	\$ 11,798	\$ -	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.

6. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Building	\$ 18,080,344	\$ 15,451,977
Equipment	868,681	868,681
Computer software	88,216	88,216
Furniture and fixtures	768,606	650,729
Automobiles	142,937	142,937
Construction in progress	<u>118,914</u>	<u>1,055,429</u>
	20,067,698	18,257,969
Less accumulated depreciation	<u>(8,249,965)</u>	<u>(7,704,536)</u>
	<u>\$ 11,817,733</u>	<u>\$ 10,553,433</u>

Construction in progress represents the costs related to security systems, fire pump installation and the reception donor wall design, for which an additional \$1,500,000 is expected to be incurred for their completion by the end of calendar year 2023.

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

7. Net Assets with Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Endowment funds restricted in perpetuity	\$ 58,470,982	\$ 56,743,634
Unappropriated endowment fund income	9,673,269	5,179,449
Restricted for time	<u>13,796,621</u>	<u>14,577,172</u>
	<u>\$ 81,940,872</u>	<u>\$ 76,500,255</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>2023</u>	<u>2022</u>
Time and purpose restrictions accomplished based on stipulations of the donor:		
Appropriated endowment funds	\$ 2,880,869	\$ 2,649,901
Restricted for time	<u>3,405,000</u>	<u>4,409,961</u>
	<u>\$ 6,285,869</u>	<u>\$ 7,059,862</u>

8. Endowment

CHC’s endowment at June 30, 2023 consists of funds restricted by donors in perpetuity and accumulated earnings on the funds, and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

CHC’s Board 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, 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. Treasury-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, 2023 and 2022.

The investment and spending policies for the endowment fund supporting The SLC (SLC Fund) (Note 1) is consistent with CHC’s endowment policy with the exception of the long-term targeted asset allocation, which 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, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 58,470,982	\$ 58,470,982
Unappropriated endowment income	<u>-</u>	<u>9,673,269</u>	<u>9,673,269</u>
Total endowment assets	<u>\$ -</u>	<u>\$ 68,144,251</u>	<u>\$ 68,144,251</u>

Endowment assets consist of the following at June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 56,743,634	\$ 56,743,634
Unappropriated endowment income	<u>-</u>	<u>5,179,449</u>	<u>5,179,449</u>
Total endowment assets	<u>\$ -</u>	<u>\$ 61,923,083</u>	<u>\$ 61,923,083</u>

Changes in endowment assets for the year ended June 30, 2023 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, beginning of year	\$ -	\$ 61,923,083	\$ 61,923,083
Contributions	-	1,727,348	1,727,348
Funds appropriated, net	-	(2,880,869)	(2,880,869)
Net appreciation	<u>-</u>	<u>7,374,689</u>	<u>7,374,689</u>
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 68,144,251</u>	<u>\$ 68,144,251</u>

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

8. Endowment (continued)

Changes in endowment assets for the year ended June 30, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, beginning of year	\$ -	\$ 69,227,375	\$ 69,227,375
Contributions	-	5,400,424	5,400,424
Funds appropriated, net	-	(2,649,901)	(2,649,901)
Net depreciation	<u>-</u>	<u>(10,054,815)</u>	<u>(10,054,815)</u>
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 61,923,083</u>	<u>\$ 61,923,083</u>

9. Lease Commitments

CHC leases its San Jose campus for both clinical and classroom facilities under a non-cancellable operating lease, expiring in June 2025.

The lease agreements contain scheduled rent increases. The leases are classified as operating leases under Topic 842. The operating lease ROU assets are amortized over the estimated useful life of one and three years. At June 30, 2023, the remaining operating lease term was between 1.92 and 5.01 years. Interest expense on the operating lease liabilities is recorded using the interest method with a weighted average discount rate of 6.50%.

Lease expense under the operating leases, including interest on the operating lease liabilities, was \$532,045 for the year ended June 30, 2023. Rent expense for the year ended June 30, 2022 under Topic 840 was \$476,019.

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

9. Lease Commitments (continued)

Future minimum lease payments under the operating lease liabilities are as follows:

Years ending June 30:	
2024	\$ 619,980
2025	645,979
2026	94,470
2027	68,802
2028	55,121
Thereafter	<u>4,448</u>
Total minimum lease payments	1,488,800
Less amount representing interest	<u>(139,102)</u>
Present value of operating lease liabilities	1,349,698
Less current portion	<u>(533,563)</u>
Noncurrent portion	<u>\$ 816,135</u>

The lease liabilities are collateralized by the leased facilities.

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 \$20,500 for employees under age 50, and \$27,000 for employees age 50 and above for the year ended June 30, 2023. The plan allows for discretionary employer contributions and CHC made contributions of \$253,000 and \$250,000 for the years ended June 30, 2023 and 2022, respectively.

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

11. Subsequent Events

The following events in 2023 have had significant impact to the nonprofit sector in CHC's region:

On March 10, 2023, Silicon Valley Bank (SVB) was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. On March 12, 2023, the FDIC, the U.S. Department of the Treasury and the Federal Reserve System issued a joint statement indicating actions would be taken to complete the FDIC's resolution of SVB in a manner that protects depositors. The financial institution was reopened by the FDIC on March 13, 2023, as Silicon Valley Bridge Bank, N.A., with customers having full access to their deposits and debt facilities as at the time of the closure. On March 26, 2023, the FDIC entered into a purchase and assumption agreement for all deposits and loans of Silicon Valley Bridge Bank, N.A. with First Citizens Bancshares, Inc.

On May 1, 2023, First Republic Bank (FRB) was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. To protect depositors, the FDIC entered into a purchase and assumption agreement with JPMorgan Chase & Co. to assume all of the deposits and substantially all of the assets of FRB.

While CHC does not have a banking relationship with SVB or FRB, the impact of these events has brought uncertainty to the broader banking industry. Management has evaluated these events and does not believe these banking industry issues will have a material impact on CHC's future financial statements.

Management has reviewed subsequent events and transactions that occurred after the Statement of Financial Position date through September 28, 2023. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with GAAP. Management has determined that there are no unrecognized subsequent events that require additional disclosure.