Children's Health Council, Inc.

Financial Statements

June 30, 2016
(With Comparative Totals for 2015)

Frank, Rimerman + Co. LLP

Certified
Public
Accountants

Palo Alto
San Francisco
San Jose
St. Helena

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

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Health Council, Inc. (the Council), which comprise the statement of financial position as of June 30, 2016, 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, 2016, 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, 2015 financial statements, and our report dated October 15, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Frank, Rimerman & Co. LLP

Palo Alto, California
November 11, 2016

Children's Health Council, Inc.
Statement of Financial Position
June 30, 2016 (with Summarized Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2016 Total	June 30, 2015 Total
ASSETS					
Cash and Cash Equivalents	$ 2,436,873	$ 440,000	$ 496,800	$ 3,373,673	$ 3,717,198
Accounts Receivable, net of allowance for doubtful accounts of $50,000	1,708,858	-	-	1,708,858	1,029,505
Pledges Receivable, net	447,949	85,650	798,611	1,332,210	1,920,838
Prepaid Expenses and Other Assets	49,463	-	-	49,463	41,218
Investments	1,730,211	4,202,285	19,833,834	25,766,330	25,967,231
Property and Equipment, net	9,786,861	-	-	9,786,861	10,039,287
Receivable from Sale of Investments	-	-	-	-	114,332
Total assets	$ 16,160,215	$ 4,727,935	$ 21,129,245	$ 42,017,395	$ 42,829,609
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	$ 137,945	$ -	$ -	$ 137,945	$ 139,393
Accrued expenses and other liabilities	1,011,013	-	-	1,011,013	1,211,618
Deferred revenue	1,148,054	-	-	1,148,054	967,715
Total liabilities	2,297,012	-	-	2,297,012	2,318,726
Commitments and Contingency (Notes 9 and 10)					
Net Assets					
Unrestricted	13,863,203	-	-	13,863,203	14,470,143
Temporarily restricted	-	4,727,935	-	4,727,935	4,963,944
Permanently restricted	-	-	21,129,245	21,129,245	21,076,796
Total net assets	13,863,203	4,727,935	21,129,245	39,720,383	40,510,883
Total liabilities and net assets	$ 16,160,215	$ 4,727,935	$ 21,129,245	$ 42,017,395	$ 42,829,609

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Activities
Year Ended June 30, 2016 (with Summarized Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended June 30, 2016 Total	Year Ended June 30, 2015 Total
Public Support					
Donations	$ 930,711	$ -	$ 52,449	$ 983,160	$ 1,877,643
Special events, net	397,875	-	-	397,875	273,051
Foundation and trust grants	-	824,500	-	824,500	750,649
	1,328,586	824,500	52,449	2,205,535	2,901,343
Revenue					
Patient fees and insurance payments	1,419,296	-	-	1,419,296	1,354,029
School district funding	6,421,679	-	-	6,421,679	5,765,021
Government contracts	2,864,417	-	-	2,864,417	3,194,097
Tuition	1,667,187	-	-	1,667,187	1,501,676
Other income	309,669	-	-	309,669	312,368
	12,682,248	-	-	12,682,248	12,127,191
Net Assets Released from Restrictions	819,262	(819,262)	-	-	-
Total public support and revenue	14,830,096	5,238	52,449	14,887,783	15,028,534
Expenses					
Program services:					
Outpatient clinical services	4,839,462	-	-	4,839,462	4,342,128
School services	7,146,948	-	-	7,146,948	6,683,061
	11,986,410	-	-	11,986,410	11,025,189
Supporting services:					
Administration, management and general	2,420,637	-	-	2,420,637	2,295,463
Fundraising	991,597	-	-	991,597	1,247,222
	3,412,234	-	-	3,412,234	3,542,685
Total expenses	15,398,644	-	-	15,398,644	14,567,874
Increase (decrease) in net assets from operations	(568,548)	5,238	52,449	(510,861)	460,660
Investment Income (Loss)					
Interest, dividends and earnings, net	37,297	452,902	-	490,199	493,610
Net realized and unrealized loss	(75,689)	(694,149)	-	(769,838)	(1,767)
Net investment income (loss)	(38,392)	(241,247)	-	(279,639)	491,843
Change in Net Assets	(606,940)	(236,009)	52,449	(790,500)	952,503
Net Assets, beginning of year	14,470,143	4,963,944	21,076,796	40,510,883	39,558,380
Net Assets, end of year	$ 13,863,203	$ 4,727,935	$ 21,129,245	$ 39,720,383	$ 40,510,883

See Notes to Financial Statements

Children's Health Council, Inc.
Statement of Functional Expenses
Year Ended June 30, 2016

	Outpatient Clinical Services	School Services	Total Program Services	Administration, Management and General	Fundraising	Total Supporting Services	Total
Salaries, Benefits, Contract Staff and Payroll Taxes	$ 4,253,298	$ 5,173,512	$ 9,426,810	$ 1,848,335	$ 584,110	$ 2,432,445	$ 11,859,255
Operating Expenses	372,531	1,542,450	1,914,981	384,753	390,333	775,086	2,690,067
Utilities and Maintenance	57,033	115,551	172,584	52,116	4,734	56,850	229,434
Insurance	30,663	51,707	82,370	22,305	2,028	24,333	106,703
Total Expenses before Depreciation	4,713,525	6,883,220	11,596,745	2,307,509	981,205	3,288,714	14,885,459
Depreciation	125,937	263,728	389,665	113,128	10,392	123,520	513,185
Total expenses	$ 4,839,462	$ 7,146,948	$ 11,986,410	$ 2,420,637	$ 991,597	$ 3,412,234	$ 15,398,644
Percentage of Total Expenses	31%	47%	78%	16%	6%	22%	100%

See Notes to Financial Statements

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

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

See Notes to Financial Statements

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

	Years Ended June 30,	
	2016	2015
Cash Flows from Operating Activities		
Change in net assets	$ (790,500)	$ 952,503
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	513,185	460,520
Change in discount on pledges receivable	(5,908)	(41,751)
Net realized and unrealized loss on investments	769,838	1,766
Changes in operating assets and liabilities:		
Accounts receivable	(679,353)	399,063
Pledges receivable	150,200	(300,200)
Prepaid expenses and other assets	(8,245)	(659)
Accounts payable and other current liabilities	(202,053)	(180,070)
Deferred revenue	180,339	259,528
Net cash provided by (used in) operating activities	(72,497)	1,550,700
Cash Flows from Investing Activities		
Proceeds from sale and distribution of investments	8,352,205	7,963,112
Purchase of investments	(8,806,810)	(12,809,530)
Purchase of property and equipment	(260,759)	(3,479,974)
Net cash used in investing activities	(715,364)	(8,326,392)
Cash Flows from Financing Activities		
Proceeds from pledges receivable restricted for endowment	444,336	666,518
Net cash provided by financing activities	444,336	666,518
Net Decrease in Cash and Cash Equivalents	(343,525)	(6,109,174)
Cash and Cash Equivalents, beginning of year	3,717,198	9,826,372
Cash and Cash Equivalents, end of year	$ 3,373,673	$ 3,717,198

Supplemental Schedule of Noncash Investing Activities		
Receivable from sale of investments	$ -	$ 114,332

See Notes to Financial Statements

1. Organization

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

The Council is organized into five distinct service divisions:

The Center at Children's Health Council provides expert interdisciplinary evaluations, individualized treatment and innovative programs to meet every child's unique challenges and needs. The Council works with families and schools to provide individualized treatment solutions for ADHD and inattention, Autism Spectrum Disorder, learning challenges, and anxiety and depression. The Council empowers children, teens and young adults between the ages of 2 and 25 with social, emotional, physical and academic learning challenges to uncover their greatest potential.

The Esther B. Clark School (EBC School), a nonpublic school with a campus located at the Council, provides transformative education in a caring, therapeutic day school setting where children with severe emotional and behavioral issues re-engage in learning and develop the positive behaviors necessary to transition back to a district school. EBC School serves students between the ages of 7 and 16 who have a primary special education eligibility for Emotionally Disturbed (ED) or Other Health Impaired (OHI) and have not been able to derive benefit from their previous school setting. EBC School employs a combination of therapeutic, academic and enrichment opportunities to create an individualized comprehensive plan for each student. When a student is equipped emotionally and educationally to return to local public school, he or she is gradually transitioned to ensure successful reintegration, generally within one to two years.

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

1. Organization (continued)

The Community Clinic's nurturing specialists help the underserved by providing assessment and treatment services for children up to 18 years, who face a full range of mental health, developmental and behavioral issues. The Community Clinic uses a personalized approach to lift barriers to help each child develop and learn to his or her greatest potential. Services are primarily funded by Santa Clara Medi-Cal funding.

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

2. Significant Accounting Policies

Financial Statement Presentation:

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

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

2. Significant Accounting Policies (continued)

Revenue Recognition:

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

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

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

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:

	2016	2015
Rocktoberfest	$ 411,013	$ 330,863
Rocktoberfest in-kind goods and services	94,507	92,828
Children's Health Council 2016 Breakfast	115,012	-
The Mask Event	-	46,770
Total revenues	620,532	470,461
Rocktoberfest cash expenditures	84,075	76,629
Rocktoberfest in-kind goods and services	94,507	92,828
Children's Health Council 2016 Breakfast	44,075	-
The Mask Event	-	27,953
Total expenses	222,657	197,410
Special events, net	$ 397,875	$ 273,051

2. Significant Accounting Policies (continued)

Use of Estimates:

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

Concentration of Credit Risk:

Financial instruments that potentially subject the Council to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable, pledges receivable and investments. The Council maintains its cash and cash equivalents with one major U.S. financial institution and one major brokerage firm. The Council's cash balances with the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC). Cash balances exceeded FDIC insurable limits by $2,493,000 at June 30, 2016 ($2,485,000 at June 30, 2015). The Council's cash and investment balances held with the brokerage firm exceeded the amount insured by the Securities Investor Protection Corporation by $23,360,000 at June 30, 2016 ($20,879,000 at June 30, 2015). Non-marketable securities of $2,436,000 at June 30, 2016 ($3,031,000 at June 30, 2015) are not insured.

Receivables are generally from local donors and these donors' credit worthiness is evaluated by the Council on a regular basis. The Council makes judgements as to the ability to collect all of its outstanding receivables and provides allowances for potential credit losses as needed. Credit losses have historically been within management's expectation.

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 for the building.

2. Significant Accounting Policies (continued)

Income Taxes:

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

Although the Council is recognized as tax exempt, it is still liable for income tax on any unrelated business taxable income (UBTI) generated by its non-marketable investments. There was no tax liability relating to UBTI at June 30, 2016 or 2015.

The Council applies the provisions set forth in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 to account for the uncertainty in income taxes. The Council assessed all income tax positions taken where the statute of limitations remained open. Examples of these tax positions include the Council's tax-exempt status and potential sources of UBTI. The Council believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded at June 30, 2016 or 2015.

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

Statements of Functional Expenses:

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

Cash and Cash Equivalents:

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

2. Significant Accounting Policies (continued)

Investments:

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

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

Fair Value of Financial Instruments:

In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07 (ASU 2015-07), *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent).* ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value (NAV) per share as a practical expedient. ASU 2015-07 is effective for the Council as of July 1, 2017. Early adoption is permitted. The Council has elected to early adopt ASU 2015-07 and applied the standard to both periods presented. Early adoption of this guidance resulted in the removal of NAV instruments from Level III in the fair value hierarchy of $2,359,586 at June 30, 2016 ($2,847,043 at June 30, 2015).

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

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

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

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

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

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

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

Level III Valuation Techniques:

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

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.

2. Significant Accounting Policies (continued)

Land Lease:

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

Recent Accounting Pronouncements Not Yet Effective:

Presentation of Financial Statements:

In August 2016, the FASB issued 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 restriction" and "without donor restriction"); 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 the Council as of July 1, 2018 and requires a retrospective transition approach for its adoption. The Council is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

Revenue:

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

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective (continued)*:*

Leases:

In February 2016, the FASB issued ASU 2016-02, *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. ASU 2016-02 is effective for the Council as of July 1, 2020 and requires the use of a modified retrospective transition approach for its adoption. The Council is currently evaluating the effect ASU 2016-02 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 ASU 2016-02.

Comparative Financial Information:

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

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:

	2016	2015
Endowment campaign	$ 820,741	$ 1,265,077
Programs and other	607,526	757,726
	1,428,267	2,022,803
Less discount to net present value	(96,057)	(101,965)
Net contributions receivable	$ 1,332,210	$ 1,920,838
Amounts receivable in:		
Less than one year	$ 365,247	$ 322,519
One to five years	1,038,020	1,675,284
Greater than five years	25,000	25,000
	$ 1,428,267	$ 2,022,803

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

Pledges receivable at June 30, 2016 and 2015 include receivables from four irrevocable survivor trusts where the Council has been named as a remainder beneficiary. Management has recorded the estimated net present value of the Council's interest in the trusts at $598,000 at June 30, 2016 ($633,000 at June 30, 2015), based on the current estimated fair value of the trust assets and estimated payments to be made to the lifetime beneficiaries.

4. Investments and Fair Value Measurements

The Council's investments as of June 30, 2016 are as follows:

	Level I	Level III	Total
Equity securities:			
Domestic	$ 10,706,985	$ -	$ 10,706,985
International	1,751,275	-	1,751,275
Income funds:			
Domestic	9,018,327	-	9,018,327
Emerging market funds	1,497,628	-	1,497,628
Natural resource funds	356,003	-	356,003
Hedge fund	-	75,557	75,557
Real estate limited partnership	-	969	969
Fair value investments	$ 23,330,218	$ 76,526	23,406,744

Investments valued using NAV:	
Hedge funds	1,512,222
Private equity funds	592,344
Real estate limited partnerships	255,020
Total investments	$ 25,766,330

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, 2016

	Fair Value at June 30, 2016	Valuation Technique	Unobservable Inputs
Hedge fund	$ 75,557	Market, cost and income approaches	Financial ratios and illiquidity
Real estate limited partnership	$ 969	Market, discounted cash flows and income multiple	Hypothetical liquidation assumption

4. Investments and Fair Value Measurements (continued)

The Council's investments as of June 30, 2015 are as follows:

	Level I	Level III	Total
Equity securities:			
Domestic	$ 8,345,506	$ -	$ 8,345,506
International	2,395,453	-	2,395,453
Income funds:			
Domestic	9,540,795	-	9,540,795
International	155,396	-	155,396
Emerging market funds	1,929,877	-	1,929,877
Natural resource funds	569,640	-	569,640
Hedge fund	-	175,540	175,540
Real estate limited partnership	-	7,981	7,981
Fair value investments	$ 22,936,667	$ 183,521	$ 23,120,188

Investments valued using NAV:

Hedge funds	$ 1,675,577
Private equity funds	756,375
Real estate limited partnerships	415,091
Total investments	$ 25,967,231

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

	Fair Value at June 30, 2015	Valuation Technique	Unobservable Inputs
Hedge fund	$ 175,540	Market, cost and income approaches	Financial ratios and illiquidity
Real estate limited partnership	$ 7,981	Market, discounted cash flows and income multiple	Hypothetical liquidation assumption

4. Investments and Fair Value Measurements (continued)

The table below presents a roll-forward of the amounts in the Statements of Financial Position for the years ended June 30, 2016 and 2015 (including the change in fair value) for non-marketable investments classified by the Council within Level III of the fair value hierarchy. When a determination is made to classify an investment within Level III of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement; however, Level III investments typically include, in addition to the unobservable Level III inputs, observable components (that is, components that are actively quoted or can be validated to market-based sources). The 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, 2014	$	364,533
Distributions		(138,520)
Net investment income		2,752
Unrealized losses included in the Statement of Activities		(45,244)
Fair value, June 30, 2015		183,521
Net investment loss		(5,123)
Unrealized losses included in the Statement of Activities		(101,872)
Fair value, June 30, 2016	$	76,526

4. Investments and Fair Value Measurements (continued)

The Council 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:

	Remaining Life	Number of Funds	Fair Value of Investments June 30, 2016	Unfunded Commitments June 30, 2016	Redemption Notice Period
Hedge Funds (A)	Less than 1 year	3	$ 1,512,222	$ -	Quarterly with 90 day notice
Private Equity Funds (B)	2-10 years	2	$ 592,344	$ 286,000	Not Eligible
Real Estate Limited Partnerships (C)	2-5 years	3	$ 255,020	$ 194,430	Not Eligible

(A) Consists of two funds for which redemption was requested subsequent to year end. Fund's strategies included 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.

5. Investment Income (Loss)

Investment income (loss) represents interest, dividends and earnings from limited partnerships, hedge funds and private equity funds, net of investment management expenses, and investment gains (losses). 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 loss consists of the following for the year ended June 30, 2016:

	Interest, Dividends and Earnings	Net Realized/ Unrealized Loss	Investment Management Expenses	Total
Marketable securities	$ 572,754	$ (694,149)	$ (95,324)	$ (216,719)
Non-marketable securities	12,769	(75,689)	-	(62,920)
	$ 585,523	$ (769,838)	$ (95,324)	$ (279,639)

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

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

6. Property and Equipment

Property and equipment consists of the following at June 30:

	2016	2015
Building	$ 13,237,263	$ 13,141,390
Equipment	797,586	1,496,639
Computer software	776,571	776,571
Furniture and fixtures	779,272	779,272
Automobiles	93,807	93,807
	15,684,499	16,287,679
Less accumulated depreciation	(5,897,638)	(6,248,392)
	$ 9,786,861	$ 10,039,287

7. Temporarily Restricted Net Assets

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

	2016	2015
Outpatient clinical programs	$ 320,000	$ 360,649
Unappropriated endowment fund income	4,202,285	4,443,532
Other	205,650	159,763
	$ 4,727,935	$ 4,963,944

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:

	2016	2015
Time and purpose restrictions accomplished based on stipulations of the donor:		
School programs	$ 36,000	$ 10,000
Outpatient clinical programs	743,262	470,000
Parent education	40,000	145,738
	$ 819,262	$ 625,738

8. Endowment

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

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

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

(1) The duration and preservation of the fund;

(2) The purposes of the Council and the donor restricted endowment fund;

(3) General economic conditions;

(4) The possible effect of inflation and deflation;

(5) The expected total return from income and the appreciation of investments;

(6) Other resources of the Council;

(7) The Council's investment policies.

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

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.

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

a) Domestic equity: S&P 500 Index and Russell 2000 Index

b) International equity: MSCI ACWI ex-US

c) Fixed income: Barclays Aggregate Index

d) Real Estate: NAREIT Index

e) Absolute/Real Return: Barclays 1-3 Year Aggregate Index

f) Commodities/Natural Resources: Dow Jones UBS Commodity Index

g) Cash/Cash Equivalents: U.S. T-Bill 30 Day Index

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Council to retain as a fund of perpetual duration. The fair value of the endowment assets exceeded the value of the original donor gifts at June 30 2016 and 2015.

8. Endowment (continued)

Endowment assets consist of the following at June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ -	$ 21,129,245	$ 21,129,245
Board designated endowment funds	1,764,905	-	-	1,672,746
Unappropriated endowment income	-	4,202,285	-	4,202,285
Total endowment assets	$ 1,764,905	$ 4,202,285	$ 21,129,245	$ 27,096,435

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ -	$ 21,076,796	$ 21,076,796
Board designated endowment funds	2,454,528	-	-	2,454,528
Unappropriated endowment income	-	4,443,532	-	4,443,532
Total endowment assets	$ 2,454,528	$ 4,443,532	$ 21,076,796	$ 27,974,856

8. Endowment (continued)

Changes in endowment assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 2,454,528	$ 4,443,532	$ 21,076,796	$ 27,974,856
Contributions	-	-	52,449	52,449
Funds designated by board	28,192	-	-	28,192
Funds appropriated, net	(695,000)	-	-	(695,000)
Net depreciation	(22,815)	(241,247)	-	(264,062)
Endowment assets, end of year	$ 1,764,905	$ 4,202,285	$ 21,129,245	$ 27,096,435

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 5,734,175	$ 3,990,045	$ 20,716,828	$ 30,441,048
Contributions	-	-	359,968	359,968
Funds designated by board	292,096	-	-	292,096
Funds appropriated, net	(3,586,981)	-	-	(3,586,981)
Net appreciation	15,238	453,487	-	468,725
Endowment assets, end of year	$ 2,454,528	$ 4,443,532	$ 21,076,796	$ 27,974,856

9. Commitments

Lease:

The Council has an operating lease for a clinical facility in San Jose, California, which expires in November 2017. The Council may extend the lease for an additional three years at the then current market rate. Rent expense was $66,000 for the year ended June 30, 2016 ($59,000 in 2015).

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

2017	$	69,000
2018		29,000
Total	$	98,000

10. Government Contracts Receivable

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

As of June 30, 2016, the County has open audits for fiscal years 2002 through 2003 and fiscal years 2007 through 2012. Amounts billed by the Council to the County total $973,000 for these periods. The collection of excess service billings is dependent upon future State funding becoming available in amounts sufficient for the County to reimburse the Council and the County's other service providers.

11. Employee Benefit Plan

In January 2015, the Council adopted a 401(k) plan for its employees. Employees can elect to participate at any time after employment and contribute up to a maximum of 100% of their annual salaries, not to exceed $18,000 for employees under age 50, and $24,000 for employees age 50 and above per year. The plan allows for discretionary employer contributions and a contribution of $119,000 was made for the year ended June 30, 2016 (none in 2015).

12. Related Party Transactions

In 2013, a member of the Council's Board of Directors, who was not compensated by the Council during fiscal 2013, pledged $2,000,000 in permanently restricted funds, of which $466,000 remains outstanding at June 30, 2016.

13. Subsequent Events

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