



GEORGE MARK CHILDREN'S HOUSE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019
WITH INDEPENDENT AUDITORS' REPORT THEREON

GEORGE MARK CHILDREN'S HOUSE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
June 30, 2020 and 2019

As the first free-standing pediatric palliative care center in the United States, George Mark Children's House offers comprehensive, compassionate, life-affirming care to children facing a life-limiting diagnosis. Services are available to medically eligible families regardless of ethnicity, gender identity, sexual orientation, or religion.

Mission

The mission of George Mark Children's House is to provide the highest quality of care and to minimize suffering by addressing the physical, emotional, spiritual and psychosocial needs of the entire family. In doing so, we strive to achieve the best quality of life possible from the moment of admission onward, through strong collaboration between families, the child's physician(s), and our interdisciplinary team.

Vision

Our vision is to make a difference in the lives of children with a life-limiting diagnosis and their families. We increase access to care by advocating for pediatric palliative care benefits, and by serving as a model to other communities seeking to implement a pediatric palliative care approach.

Additional Information

George Mark Children's House focuses on relieving the suffering, pain and stress of illness for children with a potentially life-limiting diagnosis. Recent evidence shows that palliative care improves outcomes by increasing the family's confidence in managing care at home, thereby reducing unnecessary emergency department visits and readmissions.

The criterion for admission is the diagnosis of a potentially life-limiting illness, or a life-threatening complication of an illness or medical condition. For children with frequent hospitalizations or emergency department visits, or ongoing medical interventions, George Mark can help prevent readmissions, shorten hospitalizations and teach families to safely manage their child's care at home.

Our interdisciplinary team collaborates closely with families to maximize quality-of-life. The team includes pediatricians, a psychologist, nurses and nursing assistants, social workers, a child life specialist, a pediatric aquatics specialist and volunteers.

We have nine licensed beds, and feature eight beautifully themed patient bedrooms with an extra bed for the caregiver, a private bathroom and a door opening to our lovely gardens. We also have music, art, play and activity rooms, a therapy pool, a non-denominational sanctuary, and a family-style dining room for meals.

Board of Directors and Executive Management as of June 30, 2020

Name	Position	Name	Position
Barry Slivinsky	President	Michael Brown	Director
Lindsey Frase	Vice President	Reggie Cooks	Director
William Gisvold, CPA	Treasurer	Madeline Buty Curliano, JD	Director
Shawna Kovacs	Secretary	Shekinah Eliassen	Director
		Dr. Audrey Foster-Barber	Director
Michelle Berolzheimer	Director	Kathy Hull	Director

Linda Ashcraft-Hudak
Chief Executive Officer

GEORGE MARK CHILDREN'S HOUSE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
June 30, 2020 and 2019

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George Mark Children's House

2121 George Mark Lane

San Leandro, California 94578

Office 510-346-1266

Web Site Address: [www. georgemark.org](http://www.georgemark.org)

Email: info@georgemark.org

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS



DOUGLAS REGALIA, CPA
LISA PARKER, CPA [inactive]
JEANNINE REGALIA, CPA
LISA CLOVEN, CPA
JENNY SO, CPA
JENNIFER JENSEN
WEB: WWW.MRCPA.COM

DANA CHAVARRIA, CPA
TRICIA WILSON
VALERIE REGALIA, CPA
WENDY THOMAS, CPA
SUSAN REGALIA, CPA
RACHEL BERGER, CPA
OFFICE: 925.314.0390

INDEPENDENT AUDITORS' REPORT

The Board of Directors George Mark Children's House

We have audited the accompanying financial statements of George Mark Children's House (a California nonprofit public benefit corporation) which comprise the statements of financial position as of June 30, 2020 and 2019 and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 George Mark Children's House as of June 30, 2020 and 2019 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Regalia & Associates

Danville, California
December 18, 2020

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,168,476	\$ 740,211
Investments	850,612	795,954
Accounts receivable, net of allowance of \$10,000 and \$30,000 at June 30, 2020 and 2019, respectively	94,704	165,647
Pledges and grants receivable	-	40,000
Beneficial interest in split-interest trust	24,700	37,300
Prepaid expenses and deferred charges	29,676	46,475
Total current assets	2,168,168	1,825,587
Property and equipment, net	10,285,443	10,363,158
Ground lease contribution receivable	880,117	885,548
Beneficial interest in split-interest trust, net of current portion	140,600	157,700
Prepaid loan fees and other assets	42,518	36,536
Investments	-	10,414
Total assets	\$ 13,516,846	\$ 13,278,943
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 248,718	\$ 231,905
Accrued personnel expenses	306,327	278,736
Unearned revenue	2,000	102,000
Line of credit	-	350,000
Notes payable to bank - current portion	1,270,000	1,270,000
Notes payable to related party	-	1,130,000
Loan payable to the SBA	452,843	-
Total current liabilities	2,279,888	3,362,641
Notes payable to related party	1,130,000	-
Notes payable to bank - noncurrent portion	5,810,000	5,810,000
Total liabilities	9,219,888	9,172,641
Net assets:		
Without donor restrictions	1,751,625	1,804,631
With donor restrictions - time or purpose	2,535,333	2,291,671
With donor restrictions - perpetual in nature	10,000	10,000
Total net assets	4,296,958	4,106,302
Total liabilities and net assets	\$ 13,516,846	\$ 13,278,943

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2020

	<u>Net Assets</u>			<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Time or Purpose</u>	<u>Perpetual in Nature</u>	
Revenue and support				
Contributions and grants	\$ 2,920,708	\$ 351,061	\$ -	\$ 3,271,769
Fundraising events	618,280	-	-	618,280
In-kind contributions	419,808	-	-	419,808
Program fees	913,994	-	-	913,994
Change in value of beneficial interest in split-interest trust	-	(29,700)	-	(29,700)
Net change in ground lease	-	(5,432)	-	(5,432)
Other income	14,055	21,205	-	35,260
Total revenue	<u>4,886,845</u>	<u>337,134</u>	<u>-</u>	<u>5,223,979</u>
Assets transferred and released from restrictions	<u>280,810</u>	<u>(280,810)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>5,167,655</u>	<u>56,324</u>	<u>-</u>	<u>5,223,979</u>
Expenses				
Program services	3,689,758	-	-	3,689,758
Supporting services				
Administration	547,855	-	-	547,855
Fundraising	795,710	-	-	795,710
Total expenses	<u>5,033,323</u>	<u>-</u>	<u>-</u>	<u>5,033,323</u>
Increase in net assets	134,332	56,324	-	190,656
Reclassification	(187,338)	187,338	-	-
Net assets, beginning of year	<u>1,804,631</u>	<u>2,291,671</u>	<u>10,000</u>	<u>4,106,302</u>
Net assets, end of year	<u>\$ 1,751,625</u>	<u>\$ 2,535,333</u>	<u>\$ 10,000</u>	<u>\$ 4,296,958</u>

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2019

	Net Assets			Total
	Without Donor Restrictions	With Donor Restrictions		
		Time or Purpose	Perpetual in Nature	
Revenue and support				
Contributions and grants	\$ 2,042,683	\$ 1,548,851	\$ -	\$ 3,591,534
Fundraising events	606,766	-	-	606,766
In-kind contributions	125,002	-	-	125,002
Program fees	1,037,641	-	-	1,037,641
Change in value of beneficial interest				
in split-interest trust	-	(42,900)	-	(42,900)
Net change in ground lease	-	(4,915)	-	(4,915)
Investment income	15,706	-	-	15,706
Other loss	(2,715)	-	-	(2,715)
Total revenue	<u>3,825,083</u>	<u>1,501,036</u>	<u>-</u>	<u>5,326,119</u>
Assets transferred and released				
from restrictions	<u>735,960</u>	<u>(735,960)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>4,561,043</u>	<u>765,076</u>	<u>-</u>	<u>5,326,119</u>
Expenses				
Program services	3,495,396	-	-	3,495,396
Supporting services				
Administration	707,789	-	-	707,789
Fundraising	703,739	-	-	703,739
Total expenses	<u>4,906,924</u>	<u>-</u>	<u>-</u>	<u>4,906,924</u>
Increase (decrease) in net assets	(345,881)	765,076	-	419,195
Net assets, beginning of year	<u>2,150,512</u>	<u>1,526,595</u>	<u>10,000</u>	<u>3,687,107</u>
Net assets, end of year	<u>\$ 1,804,631</u>	<u>\$ 2,291,671</u>	<u>\$ 10,000</u>	<u>\$ 4,106,302</u>

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Increase in net assets	\$ 190,656	\$ 419,195
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	441,806	432,995
Amortization	37,265	1,624
Change in allowance for doubtful accounts	(20,000)	-
Unrealized investment gains	-	(8,531)
Net change in ground lease	5,432	4,915
Decrease (increase) in assets:		
Accounts receivable	90,943	(88,480)
Pledges and grants receivable	40,000	47,500
Beneficial interest in split-interest trust	29,700	42,900
Prepaid expenses and deferred charges	(26,449)	44,941
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	16,813	38,353
Accrued personnel expenses	27,591	26,970
Unearned revenue	(100,000)	(32,400)
Net cash provided by operating activities	<u>733,757</u>	<u>929,982</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(364,091)	(78,468)
Acquisition of investments, net	(44,244)	(745,797)
Net cash used for investing activities	<u>(408,335)</u>	<u>(824,265)</u>
Cash flows from financing activities:		
Borrowings from line of credit	-	350,000
Payments tendered to reduce line of credit	(350,000)	-
Proceeds from loan payable to SBA	452,843	-
Principal payments under notes payable to bank	-	(375,000)
Net cash provided by (used for) financing activities	<u>102,843</u>	<u>(25,000)</u>
Net increase in cash and cash equivalents	428,265	80,717
Cash and cash equivalents, beginning of year	<u>740,211</u>	<u>659,494</u>
Cash and cash equivalents, end of year	<u>\$ 1,168,476</u>	<u>\$ 740,211</u>
Additional cash flow information:		
State registration taxes paid	<u>\$ 150</u>	<u>\$ 150</u>
Interest paid	<u>\$ 267,236</u>	<u>\$ 302,688</u>

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services	Supporting Services		Total
		Administration	Fundraising	
Personnel expenses	\$ 1,766,576	\$ 263,012	\$ 304,313	\$ 2,333,901
Payroll taxes	107,731	10,113	23,167	141,011
Employee benefits	446,253	157,269	37,084	640,606
Accounting fees	-	17,883	-	17,883
Change in allowance for doubtful accounts	(20,000)	-	-	(20,000)
Banking fees and charges	-	35,488	17,051	52,539
Communications	57,568	-	-	57,568
Conferences, seminars and meetings	2,169	3,193	40	5,402
Consulting and outside services	36,325	19,800	187,585	243,710
Depreciation and amortization	479,071	-	-	479,071
Dues and licenses	26,904	5,126	1,590	33,620
Equipment rental and ground lease	110,704	-	110,732	221,436
Fundraising	53,099	-	56,294	109,393
Insurance	60,070	-	-	60,070
Legal fees	163	-	-	163
Loan interest expense	292,006	73	-	292,079
Miscellaneous	10	9,323	7,934	17,267
Occupancy and utilities	207,710	-	-	207,710
Postage, shipping and delivery	1,861	865	10,228	12,954
Printing	-	13,330	31,783	45,113
Supplies	61,538	12,380	7,909	81,827
	\$ 3,689,758	\$ 547,855	\$ 795,710	\$ 5,033,323

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services	Supporting Services		Total
		Administration	Fundraising	
Personnel expenses	\$ 1,679,214	\$ 416,576	\$ 342,603	\$ 2,438,393
Payroll taxes	112,103	25,680	20,868	158,651
Employee benefits	421,537	122,691	44,982	589,210
Accounting fees	-	9,627	-	9,627
Banking fees and charges	-	28,290	17,742	46,032
Communications	44,240	-	-	44,240
Conferences, seminars and meetings	22,134	3,402	-	25,536
Consulting and outside services	31,323	20,512	118,758	170,593
Depreciation and amortization	434,619	-	-	434,619
Dues and licenses	27,320	30,908	350	58,578
Equipment rental and ground lease	23,243	-	85,226	108,469
Fundraising	-	-	25,580	25,580
Insurance	59,036	-	-	59,036
Legal fees	24,569	-	-	24,569
Loan interest expense	324,701	1,987	-	326,688
Miscellaneous	-	15,842	-	15,842
Occupancy and utilities	239,306	-	-	239,306
Postage, shipping and delivery	477	56	3,759	4,292
Printing	-	18,357	40,353	58,710
Supplies	51,574	13,861	3,518	68,953
	\$ 3,495,396	\$ 707,789	\$ 703,739	\$ 4,906,924

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

George Mark Children's House (the House), incorporated as the George Mark Children's Fund in December 1996, is a not-for-profit organization formed to provide short-term residential respite, transitional, and end of life care for children with life limiting or terminal illnesses, and their families. All care is guided by the principles of palliative care. The House is located in San Leandro, California.

The activities of the House are supported through grants, contributions from the general public and from insurance reimbursement for patient care. The operation of the House is dependent upon its ability to cover costs through fundraising, as insurance reimbursements compensate for only a portion of the expenses of patient care. The Board of Directors (the "Board") serves without compensation as an oversight body for the House,

The House began providing services to children and their families in March 2004. Since inception, operating deficits have been funded through contributions from, and notes payable to, a related party (see Note 10).

Basis of Accounting

The financial statements of the House have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations – The statements of activities and changes in net assets reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the House's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents – The House's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Concentrations of Credit Risk – Financial instruments that potentially subject the House to concentrations of credit risk consist principally of cash and cash equivalents and deposits. The House maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The House manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

To date, the House has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of the House's mission.

Investments and Endowment

The House follows the provisions of Accounting Standards Codification (*ASC*) 958.320, *Investments* and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the House could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2020 and 2019. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Investments include cash, certificates of deposit, stocks, and mutual funds. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included on the statement of activities and changes in net assets.

The House's endowment consists of a diverse mixture of funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by ASC 958.320, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The House has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the 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 House 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 either net assets with donor restrictions or net assets without donor restrictions until those amounts are appropriated for expenditure by the House in a manner consistent with the standard of prudence prescribed by SPMIFA.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Credit Policies – On an annual basis, the House evaluates the need for an allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine the proper carrying value.

Accounts, Pledges, and Grants Receivable - The House records accounts, pledges, and grants receivable which are expected to be collected within one year at net realizable value. When material, grants and pledges receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions which market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in contribution revenue on the statement of activities and changes in net assets. The allowance for uncollectible receivables is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible.

Property and Equipment - Property and equipment are recorded at cost, or, if donated, at the estimated fair market value on the date of the gift. Assets acquired by capital leases are carried at their present values on their acquisition dates. Depreciation on buildings and equipment is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized on the straight-line basis over the shorter of the lease term or the estimated useful life of the asset. The costs of maintenance, repairs, and minor renewals are charged to expense when incurred. The costs of additions and major renewals in excess of \$1,000 are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and a gain or loss is reflected in the statement of activities and changes in net assets.

Estimated lives by major class of depreciable assets are as follows: Buildings and improvements: 5 - 40 years; Equipment, furniture, and fixtures: 7 - 10 years; and Computers and software: 2 - 5 years.

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs).

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The House groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1

Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2

Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3

Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, but it has opted not to do so as of June 30, 2020 and 2019.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of 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.

Revenue and Revenue Recognition - Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an "exchange transaction") is recognized when earned and therefore measured as services are provided.

Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Donated Services and In-Kind Contributions - Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statement of activities and changes in net assets and statement of functional expenses.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (such as salaries and wages, rent and utilities, insurance, and other overhead) have been allocated based on time and effort using the House's payroll allocations. Other expenses (such as professional services and other direct costs) have been allocated in accordance with the specific services received from vendors.

Reclassifications - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets in total.

Recent and Relevant Accounting Pronouncements – The following pronouncements are relevant to the House:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The House has adjusted the presentation of these statements accordingly.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of December 18, 2020 (the date of the Independent Auditors' Report), the House management has made this evaluation and has determined that the House has the ability to continue as a going concern.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made.

The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Although early adoption is permitted, the House has not yet incorporated these clarifying standards within the audited financial statements. The House has implemented the provisions of this update for the year ended June 30, 2020.

Income Taxes - Financial statement presentation follows the recommendations of *ASC 740, Income Taxes*. Under ASC 740, the House is required to report information regarding its exposure to various tax positions taken by the House and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that the House has adequately evaluated its current tax positions and has concluded that as of June 30, 2020 and 2019, the House does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

The House has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that the House continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. The House may periodically receive unrelated business income requiring the House to file separate tax returns under federal and state statutes. Under such conditions, the House will calculate, accrue, and remit the applicable taxes.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30:

	2020		2019
Checking	\$ 384,744	\$	68,773
Money market	783,370		671,274
Petty cash and other	362		164
Total cash and cash equivalents	\$ 1,168,476	\$	740,211

Funds on deposit in money market accounts bear interest at rates ranging from 0.03% to 0.07% per annum at June 30, 2020.

3. RECEIVABLES

Receivables consist of the following at June 30:

	2020		2019
Accounts receivable	\$ 104,704	\$	195,647
Allowance for doubtful accounts	(10,000)		(30,000)
Accounts receivable, net	\$ 94,704	\$	165,647
Pledges and grants receivable	\$ -	\$	40,000

The allowance for doubtful accounts was adjusted downwards by \$20,000 during the year ended June 30, 2020. There were no adjustments to the allowance for doubtful accounts during the year ended June 30, 2019. Management has evaluated the receivables as of June 30, 2020 and 2019 and determined that an allowance for doubtful accounts of \$10,000 and \$30,000, respectively, will be sufficient to absorb the estimated loss exposure inherent in the receivables from outside parties.

4. INVESTMENTS

Investments consist of the following at June 30:

	2020		2019
Cash, money funds, sweep account	\$ 850,612	\$	11,049
U.S. Treasury Bills	-		399,128
U.S. Treasury Notes	-		385,777
Subtotal: short-term investments	850,612		795,954
Long-term cash holdings	-		10,414
Total investments	\$ 850,612	\$	806,368

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

4. INVESTMENTS (CONTINUED)

Interpretation of Relevant Law

The Board has adopted the requirements of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and has interpreted UPMIFA as requiring the preservation of the 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 House 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, if any, that is not classified in permanently restricted net assets, is classified as unrestricted net assets.

Return Objectives and Risk Parameters

The House has adopted investment and spending policies 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. Endowment assets include those assets of donor-restricted funds that the House must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce reasonable results while assuming a moderate level of investment risk. The House expects its endowment funds, over time, to provide an average rate of return consistent with current market conditions.

Strategies Employed for Achieving Objectives

Investments classified as current assets amounted to \$850,612 and \$795,954 at June 30, 2020 and 2019, respectively. Investments classified as noncurrent assets amounted to \$10,414 at June 30, 2019. There were no investments classified as long term at June 30, 2020. Investments are held in fiduciary accounts at separate brokerage firms. It is the policy of the House to rely principally on a total return strategy in which investment returns are achieved through current yields resulting in interest and dividend income.

5. BENEFICIAL INTEREST IN SPLIT-INTEREST TRUST

The House is a beneficiary of an unconditional irrevocable complex trust with a split-interest (the "Trust"). Each year the Trust distributes 11% of the fair market value of the Trust's available assets to its beneficiaries. As one of the beneficiaries, the House receives 25% of the annual distribution, which will continue until the value of the assets of the Trust fall below \$100,000. At that time, the remaining assets will be liquidated and the House will receive 25% of such liquidation proceeds.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

5. BENEFICIAL INTEREST IN SPLIT-INTEREST TRUST (CONTINUED)

The House has recorded the present value of its future expected cash receipts in the accompanying statement of financial position as follows:

	2020	2019
Current portion of beneficial interest in split-interest trust	\$ 24,700	\$ 37,300
Noncurrent portion of beneficial interest in split-interest trust	140,600	157,700
	\$ 165,300	\$ 195,000

The evaluation of future cash flows is based on the following assumptions:

Earnings rate used to calculate income from available assets	2%
Discount rate used to calculate the present value of future cash flows	4%

6. GROUND LEASE CONTRIBUTION RECEIVABLE

In June 1998, the House entered into a fifty-year lease with the County of Alameda ("County") for the land upon which the House has constructed its pediatric hospice. The lease provides for an annual rent of \$1, and further provides that should the County terminate the lease, it must compensate the House for the fair value of the real property improvements, as defined, located on the property, or must provide other compatible compensation as described in the lease agreement.

In 1998, a professional appraisal determined that the fair value of the land was \$930,000 and the fair value of the rent was \$98,350 per year. The appraisal assumed a discount rate of 10.5% annually. In 1998, the House recorded an in-kind donation of \$930,000 and a contribution receivable over 50 years for the same amount. Annually, the House records an in-kind donation of \$98,350, representing the fair value of the rent contributed by the County, with a corresponding amount recorded as rent expense. Ground lease contribution receivable amounted to \$880,117 and \$885,548 as of June 30, 2020 and 2019, respectively.

Annually, the amount of the contribution receivable and the amount of the in-kind rent donation are reduced by the discount, which totaled \$5,432 and \$4,915 for the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020, the net change in ground lease will amount to (1) \$6,001 for the year ending June 30, 2021; (2) \$6,632 for the year ending June 30, 2022; (3) \$7,328 for the year ending June 30, 2023; (4) \$8,098 for the year ending June 30, 2024; (5) \$8,948 for the year ending June 30, 2025; and (6) \$843,110 thereafter.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges of \$29,676 and \$46,475 at June 30, 2020 and 2019, respectively, represent amounts expended for overhead costs (principally for insurance) and planned events related to the subsequent fiscal period.

8. PREPAID LOAN FEES AND OTHER ASSETS

Prepaid loan fees and other assets of \$42,518 and \$36,536 at June 30, 2020 and 2019, respectively, represent costs expended which benefit future fiscal periods. Included with prepaid expenses and deferred charges are prepaid loan fees, net of accumulated amortization, of \$32,101 and \$36,536 at June 30, 2020 and 2019, respectively. These loan fees were capitalized in a prior fiscal year and are being amortized over the life of the loan. Amortization expense amounted to \$37,265 and \$1,624 for the years ended June 30, 2020 and 2019, respectively.

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2020		2019
Buildings and improvements	\$ 16,897,420	\$	16,585,974
Equipment, furniture, and fixtures	569,100		516,455
Vehicles	55,444		55,444
Subtotal	17,521,964		17,157,873
Less accumulated depreciation	(7,236,521)		(6,794,715)
Property and equipment, net	\$ 10,285,443	\$	10,363,158

Depreciation expense amounted to \$441,806 and \$432,995 for the years ended June 30, 2020 and 2019, respectively.

10. RELATED PARTY TRANSACTIONS

Contributions – Certain members of the Board of Directors contributed \$139,751 and \$109,150 to the House during the years ended June 30, 2020 and 2019, respectively.

Notes Payable – Dr. Kathleen Hull, Founder of the House and a member of the Board of Directors, has provided ongoing funding for operational purposes. The total amount loaned to the House amounted to \$1,130,000 as of June 30, 2020 and 2019 with accrued interest amounting to \$157,196 and \$133,196 at June 30, 2020 and 2019, respectively. These debt instruments, memorialized in multiple notes payable, bear interest at the fixed rate of 2.0% per annum. All notes reflect a maturity date of June 30, 2022. Interest expense related to this debt amounted to \$24,000 and \$24,000 for the years ended June 30, 2020 and 2019, respectively. Repayment of the related party debt is subordinate to the repayment of all third-party bank loans.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

11. LIQUIDITY

The House regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. The House has various sources of liquidity at its disposal, including cash and cash equivalents and other sources (including the future collection of receivables).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the House considers all expenditures related to its mission, as well as the conduct of services undertaken, to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the House anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The following table shows the total financial assets held by the House and the amounts of those financial assets readily available within one year of the date of the statements of financial position to meet general expenditures:

	2020	2019
Cash and cash equivalents	\$ 1,168,476	\$ 740,211
Investments	850,612	795,954
Accounts receivable, net	94,704	165,647
Pledges and grants receivable	-	40,000
Subtotal	<u>2,113,792</u>	<u>1,741,812</u>
Less: amounts not available to be used within one year:		
Net assets with donor restrictions for programs	(640,792)	(661,757)
Net assets with donor restrictions for legacy campaign (Fund for the Future)	(850,612)	(795,954)
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 622,388</u>	<u>\$ 284,101</u>

The House receives a substantial amount of support by way of restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the House must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

As part of the House's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

12. UNEARNED REVENUE

Unearned revenue of \$2,000 and \$102,000 at June 30, 2020 and 2019, respectively, represents funds received in advance of future services and events for the subsequent fiscal year. Such amounts have been reflected as short-term liabilities on the statements of financial position and will be reflected as earned revenue during the period July 1, 2020 through June 30, 2021.

13. COMPENSATED ABSENCES (ACCRUED PAYROLL AND BENEFITS)

Financial statement presentation follows the recommendations of *ASC 710.25, Compensated Absences*. Under ASC 710.25, the House is required to record a liability for the estimated amounts of compensation and related benefits under existing employment laws. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on employee compensation rates. Accrued personnel expenses (including accrued wages and vacation) amounted to \$306,327 and \$278,736 at June 30, 2020 and 2019, respectively.

14. NOTES PAYABLE TO BANK

The House has established a borrowing relationship with First Republic Bank consisting of multiple credit facilities. In a prior year, the House secured a revolving line of credit with a total available balance of \$350,000. On June 18, 2020, the House secured an additional credit facility in the amount of \$600,000 to provide temporary working capital. Details of all borrowing arrangements are as follows:

Loan 1: \$3,950,000 term note, dated November 6, 2019, bearing interest at the fixed rate of 3.85% per annum (as of June 30, 2020) for the first 60 months of the loan period. Effective December 4, 2024, the loan adjusts to a variable rate based on the Prime Rate of interest as published in the Wall Street Journal for the remainder of the 30-year loan. The note requires interest-only payments for the first five years of the loan and then principal and interest payments for the remaining 25 years. This debt is secured by all assets of the House and by certain other assets of the Kathleen N. Hull Trust.

Loan 2: \$1,860,000 term note, dated November 6, 2019, bearing interest at the fixed rate of 3.85% per annum (as of June 30, 2020) for the first 60 months of the loan period. Effective December 4, 2024, the loan adjusts to a variable rate based on the Prime Rate of interest as published in the Wall Street Journal for the remainder of the 30-year loan. The note requires interest-only payments for the first five years of the loan and then principal and interest payments for the remaining 25 years. This debt is secured by all assets of the House and by certain other assets of the Kathleen N. Hull Trust.

GEORGE MARK CHILDREN’S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

14. NOTES PAYABLE TO BANK (CONTINUED)

Loan 3: \$1,270,000 note, dated June 18, 2020, bearing interest at the fixed rate of 3.25% per annum as of June 30, 2020. The note requires no remittances until the June 18, 2021 maturity date at which time both the principal balance and accrued interest are due in full. This debt is secured by a certificate of deposit and is guaranteed by the Kathleen N. Hull Trust.

Loan 4: \$350,000 line of credit (with no balance outstanding at June 30, 2020 and an outstanding balance of \$350,000 at June 30, 2019), dated June 18, 2020, bearing interest at the variable rate based on the Prime Rate of interest as published in the Wall Street Journal (3.25% as of June 30, 2020). The line of credit is subject to annual renewal every June and must be paid down to zero for thirty consecutive days during the loan period. This debt is guaranteed by the Kathleen N. Hull Trust.

Loan 5: \$600,000 working capital loan (with no balance outstanding at June 30, 2020), dated June 18, 2020, bearing interest at the fixed rate of 3.350% per annum. This debt is secured by real estate and guaranteed by the Kathleen N. Hull Trust.

At June 30, 2020, principal maturities for all notes payable are as follows:

Fiscal Year Ending June 30, 2021	\$ 1,270,000
Fiscal Year Ending June 30, 2025 and thereafter	6,940,000
	<u>\$ 8,210,000</u>

Interest expense for all loans amounted to \$292,079 and \$326,688 for the years ended June 30, 2020 and 2019, respectively.

15. LOAN PAYABLE TO SBA UNDER PAYROLL PROTECTION PROGRAM

During April 2020, the House received \$452,000 in a forgivable loan under the Small Business Administration (SBA) Paycheck Protection Program (“PPP”). The outstanding balance of \$452,843 at June 30, 2020 includes accrued interest in the amount of \$843. Congress established the PPP to provide relief to small businesses during the coronavirus pandemic as part of the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. This legislation authorized the United States Treasury Department to use the SBA’s 7(a) small business lending program to fund loans of up to \$10 million per borrower which qualifying entities can spend to cover payroll, interest, rent, and utilities.

The House expended the funds (and continues to utilize the proceeds) for payroll, operating overhead, and other eligible costs in accordance with its agreement with the SBA. Management fully anticipates that it will satisfy the PPP’s eligibility and loan forgiveness criteria, enabling the funds to be reclassified from a liability to contributed income. On November 10, 2020, the House received notification that the loan was forgiven by the SBA.

Based on the guidance in *FASB ASC 405-20-40-1, Liabilities*, the proceeds from the loan remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the House has been “legally released” or (2) the House pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, the House will post entries to reduce the liability by the amount forgiven and record the forgiven loan as income.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

16. CONCENTRATION OF CREDIT RISK

Financial Instruments - Financial instruments, which potentially subject the House to a concentration of credit risk, principally consist of cash and short-term investments. The House invests temporary cash in money market securities or other cash equivalents in amounts that may, at times, exceed federally insured limits. Periodically, the House may have funds on deposit with a financial institution in excess of the \$250,000 FDIC-insured limit. The House has not experienced any losses in those accounts and believes it is not exposed to any significant credit risk.

Support - The House receives financial support from the family of the organization's founder who also sits on the Board of Directors.

17. NET ASSETS

Net Assets Without Donor Restrictions

Net assets without donor restrictions of \$1,751,625 and \$1,804,631 at June 30, 2020 and 2019, respectively, represent the cumulative retained surpluses from operating activities since the organization's inception.

Net Assets With Donor Restrictions – Time or Purpose

The House recognizes support from donor restricted contributions when the restrictions imposed by the donors have been satisfied or expired. Net assets with donor restrictions – time or purpose consist of the following at June 30:

	2020		2019
Beneficial interest in split-interest trust	\$ 165,300	\$	195,000
Ground lease	880,117		698,210
Other use-restricted gifts	1,489,916		1,398,461
	\$ 2,535,333	\$	2,291,671

During the years ended June 30, 2020 and 2019, contributions of net assets with donor restrictions – time or purpose amounted to \$351,061 and \$1,548,851, respectively. During the years ended June 30, 2020 and 2019, the House released \$280,810 and \$735,960, respectively, from net assets with donor restrictions – time or purpose to net assets without donor restrictions.

Net Assets With Donor Restrictions – Perpetual in Nature

Net assets with donor restrictions – perpetual in nature amounted to \$10,000 at June 30, 2020 and 2019. All of the restricted endowment funds, classified as perpetually restricted net assets, represent donor contributions which are subject to restrictions of gift instruments requiring the principal balances be maintained in perpetuity. The House has been instructed by the original donor that such endowment is intended to generate income for the upkeep of the sanctuary building and for general operating activities of the organization.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

17. NET ASSETS (CONTINUED)

Changes in Endowment Net Assets for the Years Ended June 30, 2020 and 2019 are summarized as follows:

Endowment net assets at June 30, 2018	\$	10,000
Contributions		-
Endowment net assets at June 30, 2019		10,000
Contributions		-
Endowment net assets at June 30, 2020	\$	10,000

At June 30, 2020 and 2019, investment income (including realized and unrealized gains) generated from these restricted funds may be expended for operations and music endowment.

18. FAIR VALUE MEASUREMENTS

Composition of assets utilizing fair value measurements at June 30, 2020 is as follows:

	Total	Level 1	Level 2	Level 3
Accounts receivable	\$ 94,704	\$ -	\$ 94,704	\$ -
Investments	850,612	850,612	-	-
Split-interest trust	165,300	-	24,700	140,600
Ground lease receivable	880,117	-	-	880,117
	\$ 1,990,733	\$ 850,612	\$ 119,404	\$ 1,020,717

Composition of assets utilizing fair value measurements at June 30, 2019 is as follows:

	Total	Level 1	Level 2	Level 3
Accounts receivable	\$ 165,647	\$ -	\$ 165,647	\$ -
Investments	806,368	795,954	10,414	-
Pledges and grants receivable	40,000	-	40,000	-
Split-interest trust	195,000	-	37,300	157,700
Ground lease receivable	885,548	-	-	885,548
	\$ 2,092,563	\$ 795,954	\$ 253,361	\$ 1,043,248

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

18. FAIR VALUE MEASUREMENTS (CONTINUED)

assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models.

Assets Classified as Level 3

The significant unobservable inputs used in the fair value measurement of the entity's asset-backed gifts (split-interest trust and ground lease receivable) are the estimated future values of the underlying assets. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques principally include present value formulas which incorporate certain rate of return assumptions.

19. ADVERTISING EXPENSE

Advertising costs are expensed as incurred. Advertising and marketing expense amounted to \$5,723 and \$6,078 for the years ended June 30, 2020 and 2019, respectively, and is included with printing on the statement of functional expenses.

20. OTHER COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future program activities, which are not reflected in the financial statements.

Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the House to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the House's control, such as generosity of donors and general economic conditions, (c) Employment contracts and service agreements with outside contractors, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts.

Management believes that such commitments or contingencies have been properly addressed, appropriate amounts have been accrued (where necessary), and there will not be any resolution with a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting organizations.

GEORGE MARK CHILDREN'S HOUSE
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

21. RECLASSIFICATION

During the year ended June 30, 2020, management noted that the ground lease portion within net assets with donor restrictions was understated at June 30, 2019. Accordingly, a reclassification was made to transfer \$187,338 from net assets without donor restrictions to net asset with donor restrictions. This reclassification essentially corrected the beginning balance of net assets with donor restrictions. No other asset, liability, income, or expense accounts were affected.

22. COVID-19

In late 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic.

The novel coronavirus threat has (a) significantly impacted financial markets, (b) potentially diminished revenue streams, and (c) impacted private enterprises with which the House conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic.

Management is carefully monitoring the situation and evaluating its options during this time. These financial statements do not contain any adjustments related to economic losses which may or may not be realized by the House as a result of these events.

23. SUBSEQUENT EVENTS

In compliance with *ASC 855, Subsequent Events*, the House has evaluated subsequent events through December 18, 2020, the date the financial statements were available to be issued. As disclosed in Note 15, the House received notification on November 10, 2020 from the SBA that it had successfully satisfied all of the conditions and covenants governing the PPP loan. Accordingly, during the fiscal year ending June 30, 2021, the House will remove the loan payable to SBA of \$452,843 and transfer the amount to contributed income. In the opinion of management, there are no other subsequent events which are required to be disclosed.