

**NATIONAL HEALTH COUNCIL, INC.**  
**DECEMBER 31, 2018 AND 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
National Health Council, Inc.  
Washington, D.C.

We have audited the accompanying financial statements of National Health Council, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows 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 auditors consider 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 in the first paragraph present fairly, in all material respects, the financial position of National Health Council, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Barfino and Rhoades LLP*

March 15, 2019

**NATIONAL HEALTH COUNCIL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

	DECEMBER 31,	
	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash (Notes 1 and 6)	\$ 2,672,822	\$ 2,306,956
Investment (Notes 1, 4 and 5)	522,460	517,985
Pledges and accounts receivable (Notes 1 and 12)	629,508	465,489
Prepaid expenses and other	45,865	51,237
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 3,870,655</b>	<b>\$ 3,341,667</b>
<b>PROPERTY AND EQUIPMENT, NET</b> (Notes 1 and 7)	121,933	147,779
<b>OTHER ASSET:</b>		
Deferred compensation plan asset	\$ 20,529	\$ -
Lease deposit	15,878	15,878
<b>TOTAL OTHER ASSETS</b>	<b>\$ 36,407</b>	<b>\$ 15,878</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,028,995</b>	<b>\$ 3,505,324</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 194,898	\$ 162,483
Accrued expenses	122,692	113,335
Deferred revenue (Note 1)	461,600	603,631
Current portion of deferred rent (Note 13)	23,759	16,607
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 802,949</b>	<b>\$ 896,056</b>
<b>LONG TERM LIABILITY:</b>		
Deferred rent (Note 13)	\$ 211,460	\$ 235,219
Deferred compensation plan liability (Note 11)	42,154	20,514
<b>TOTAL LONG TERM LIABILITIES</b>	<b>\$ 253,614</b>	<b>\$ 255,733</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,056,563</b>	<b>\$ 1,151,789</b>
<b>COMMITMENTS</b> (Note 13)		
<b>NET ASSETS</b> (Notes 1 and 9):		
Without donor restrictions	\$ 1,444,874	\$ 1,351,762
With donor restrictions	1,527,558	1,001,773
<b>TOTAL NET ASSETS</b>	<b>\$ 2,972,432</b>	<b>\$ 2,353,535</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,028,995</b>	<b>\$ 3,505,324</b>

The accompanying notes are an integral part of these financial statements.

**NATIONAL HEALTH COUNCIL, INC.**

**STATEMENTS OF ACTIVITIES**

FOR THE YEARS ENDED DECEMBER 31,

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE, GAINS AND SUPPORT</b> (Notes 1 and 8):						
Support:						
Sponsorship contributions and grant	\$ 138,224	\$ 2,299,500	\$ 2,437,724	\$ 203,711	\$ 2,285,175	\$ 2,488,886
Membership dues	1,406,432	-	1,406,432	1,224,980	-	1,224,980
Contributed services	-	-	-	115,574	-	115,574
Publication sales and other income	17,311	-	17,311	4,388	-	4,388
Honoraria	15,290	-	15,290	35,925	-	35,925
Investment gains, net (Note 4)	5,330	-	5,330	9,323	-	9,323
Net assets released from restrictions (Note 10)	1,773,715	(1,773,715)	-	2,321,672	(2,321,672)	-
<b>TOTAL REVENUE, GAINS AND SUPPORT</b>	<b>\$ 3,356,302</b>	<b>\$ 525,785</b>	<b>\$ 3,882,087</b>	<b>\$ 3,915,573</b>	<b>\$ (36,497)</b>	<b>\$ 3,879,076</b>
<b>EXPENSES:</b>						
Program services:						
Special projects	\$ 926,876	\$ -	\$ 926,876	\$ 1,539,023	\$ -	\$ 1,539,023
Member services	825,455	-	825,455	996,438	-	996,438
Conferences	777,025	-	777,025	428,987	-	428,987
Publications	21,468	-	21,468	16,002	-	16,002
Total program services	<b>\$ 2,550,824</b>	<b>\$ -</b>	<b>\$ 2,550,824</b>	<b>\$ 2,980,450</b>	<b>\$ -</b>	<b>\$ 2,980,450</b>
Supporting services:						
General and administrative	\$ 390,654	\$ -	\$ 390,654	\$ 436,704	\$ -	\$ 436,704
Governance	102,491	-	102,491	103,548	-	103,548
Strategic planning	96,620	-	96,620	8,153	-	8,153
Membership development	71,580	-	71,580	56,601	-	56,601
Fundraising	51,021	-	51,021	52,280	-	52,280
Total supporting services	<b>\$ 712,366</b>	<b>\$ -</b>	<b>\$ 712,366</b>	<b>\$ 657,286</b>	<b>\$ -</b>	<b>\$ 657,286</b>
<b>TOTAL EXPENSES</b>	<b>\$ 3,263,190</b>	<b>\$ -</b>	<b>\$ 3,263,190</b>	<b>\$ 3,637,736</b>	<b>\$ -</b>	<b>\$ 3,637,736</b>
<b>CHANGES IN NET ASSETS</b>	<b>\$ 93,112</b>	<b>\$ 525,785</b>	<b>\$ 618,897</b>	<b>\$ 277,837</b>	<b>\$ (36,497)</b>	<b>\$ 241,340</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,351,762</b>	<b>1,001,773</b>	<b>2,353,535</b>	<b>1,073,925</b>	<b>1,038,270</b>	<b>2,112,195</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,444,874</b>	<b>\$ 1,527,558</b>	<b>\$ 2,972,432</b>	<b>\$ 1,351,762</b>	<b>\$ 1,001,773</b>	<b>\$ 2,353,535</b>

The accompanying notes are an integral part of these financial statements.

**NATIONAL HEALTH COUNCIL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services					Supporting Services						Total	
	Special Projects	Member Services	Conferences	Publications	Total Program Services	General and Administrative	Governance	Strategic Planning	Membership Development	Fundraising	Total Supporting Services		
Personnel Costs:													
Salaries	\$ 507,234	\$ 430,840	\$ 364,164	\$ 10,926	\$ 1,313,164	\$ 99,033	\$ 52,925	\$ 34,438	\$ 50,008	\$ 35,700	\$ 272,104	\$ 1,585,268	
Fringe benefits	111,511	95,046	80,167	2,425	289,149	49,428	11,516	7,518	10,862	7,931	87,255	376,404	
Fees:													
Contract	170,227	176,403	85,645	4,500	436,775	6,816	-	46,863	-	-	53,679	490,454	
Accounting and audit	-	-	-	-	-	182,847	-	-	-	-	182,847	182,847	
Computer	16,365	18,813	10,740	322	46,240	2,918	1,579	1,015	1,474	1,052	8,038	54,278	
Legal	-	404	-	-	404	275	-	-	-	-	275	679	
Conferences, conventions and meetings	25,977	8,279	165,021	1,155	200,432	5,970	25,030	520	127	61	31,708	232,140	
Occupancy	63,484	53,924	45,578	1,368	164,354	12,397	6,624	4,310	6,259	4,468	34,058	198,412	
Depreciation and amortization	9,167	7,785	6,580	197	23,729	1,788	956	622	904	645	4,915	28,644	
Travel	6,781	2,956	5,311	149	15,197	3,678	1,544	-	401	55	5,678	20,875	
Equipment rental and maintenance	5,899	5,011	4,235	127	15,272	1,150	616	401	582	415	3,164	18,436	
Office supplies	5,521	5,131	4,219	114	14,985	1,031	642	359	522	372	2,926	17,911	
Insurance	-	-	24	-	24	12,060	-	-	-	-	12,060	12,084	
Telephone	3,050	3,461	1,969	37	8,517	329	662	525	370	271	2,157	10,674	
Publications and subscriptions	-	7,871	-	-	7,871	1,814	-	-	-	-	1,814	9,685	
Membership dues	550	6,080	-	-	6,630	1,032	-	-	-	-	1,032	7,662	
Bank charges and fees	56	3	130	-	189	6,261	-	-	-	-	6,261	6,450	
Printing	316	3,009	1,274	139	4,738	63	352	21	31	22	489	5,227	
Advertising	224	284	1,490	5	2,003	47	24	15	22	16	124	2,127	
Staff development	330	-	-	-	330	1,677	-	-	-	-	1,677	2,007	
Postage and shipping	184	155	478	4	821	40	21	13	18	13	105	926	
<b>TOTAL EXPENSES</b>	<u>\$ 926,876</u>	<u>\$ 825,455</u>	<u>\$ 777,025</u>	<u>\$ 21,468</u>	<u>\$ 2,550,824</u>	<u>\$ 390,654</u>	<u>\$ 102,491</u>	<u>\$ 96,620</u>	<u>\$ 71,580</u>	<u>\$ 51,021</u>	<u>\$ 712,366</u>	<u>\$ 3,263,190</u>	

The accompanying notes are an integral part of these financial statements.

**NATIONAL HEALTH COUNCIL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services					Supporting Services						Total
	Special Projects	Member Services	Conferences	Publications	Total Program Services	General and Administrative	Governance	Strategic Planning	Membership Development	Fundraising	Total Supporting Services	
Personnel Costs:												
Salaries	\$ 669,139	\$ 440,444	\$ 170,030	\$ 5,396	\$ 1,285,009	\$ 123,123	\$ 51,734	\$ 3,256	\$ 36,435	\$ 35,216	\$ 249,764	\$ 1,534,773
Fringe benefits	153,098	98,937	37,915	1,239	291,189	39,161	11,707	758	8,258	8,003	67,887	359,076
Fees:												
Contract	522,154	331,096	28,027	7,423	888,700	19,605	10,952	2,224	3,144	1,334	37,259	925,959
Legal	-	5,873	-	-	5,873	125,966	-	-	-	-	125,966	131,839
Accounting and audit	-	-	-	-	-	70,214	-	-	-	-	70,214	70,214
Computer	19,777	16,215	4,122	131	40,245	2,977	1,251	79	881	851	6,039	46,284
Conferences, conventions and meetings	36,895	2,435	149,967	-	189,297	2,898	17,697	-	320	56	20,971	210,268
Occupancy	89,030	58,602	22,623	718	170,973	16,380	6,883	433	4,848	4,686	33,230	204,203
Depreciation and amortization	14,910	9,815	3,789	121	28,635	2,743	1,153	73	812	785	5,566	34,201
Travel	13,569	6,882	5,285	-	25,736	103	130	979	426	93	1,731	27,467
Equipment rental and maintenance	8,498	5,593	2,160	69	16,320	1,564	657	41	463	447	3,172	19,492
Insurance	-	-	-	-	-	18,320	-	-	-	-	18,320	18,320
Telephone	5,297	5,126	1,502	18	11,943	398	413	17	585	165	1,578	13,521
Office supplies	4,360	3,163	1,197	36	8,756	797	351	289	236	228	1,901	10,657
Bank charges and fees	14	2	-	-	16	7,135	-	-	-	-	7,135	7,151
Membership dues	701	5,274	25	-	6,000	514	-	-	-	370	884	6,884
Printing	650	1,701	2,172	406	4,929	106	575	3	176	30	890	5,819
Staff development	534	424	-	-	958	4,641	-	-	-	-	4,641	5,599
Advertising	-	2,798	-	-	2,798	-	-	-	-	-	-	2,798
Publications and subscriptions	-	1,765	-	443	2,208	-	-	-	-	-	-	2,208
Postage and shipping	288	157	64	2	511	44	18	1	13	12	88	599
Messenger and express mail	109	136	109	-	354	15	27	-	4	4	50	404
<b>TOTAL EXPENSES</b>	<u>\$ 1,539,023</u>	<u>\$ 996,438</u>	<u>\$ 428,987</u>	<u>\$ 16,002</u>	<u>\$ 2,980,450</u>	<u>\$ 436,704</u>	<u>\$ 103,548</u>	<u>\$ 8,153</u>	<u>\$ 56,601</u>	<u>\$ 52,280</u>	<u>\$ 657,286</u>	<u>\$ 3,637,736</u>

The accompanying notes are an integral part of these financial statements.



**NATIONAL HEALTH COUNCIL, INC.**

**STATEMENTS OF CASH FLOWS**

	FOR THE YEARS ENDED DECEMBER 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from members, sponsors, and customers	\$ 3,570,707	\$ 3,604,798
Cash paid to employees and suppliers	(3,202,653)	(3,653,837)
Interest received	11,077	8,985
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 379,131</b>	<b>\$ (40,054)</b>
<b>PROPERTY AND EQUIPMENT</b> (Notes 1 and 5)		
Purchase of investments	\$ (10,466)	\$ (8,804)
Purchases of property and equipment	(2,799)	(33,521)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (13,265)</b>	<b>\$ (42,325)</b>
<b>NET CHANGE IN CASH</b>	\$ 365,866	\$ (82,379)
<b>CASH, BEGINNING OF YEAR</b>	2,306,956	2,389,335
<b>CASH, END OF YEAR</b>	\$ 2,672,822	\$ 2,306,956
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 618,897	\$ 241,340
Reconciliation adjustments:		
Depreciation and amortization	28,644	34,201
Unrealized loss (gain) on investments	5,992	(392)
Changes in assets and liabilities:		
Decrease (increase) in operational assets:		
Pledges and accounts receivable	(164,019)	(213,259)
Prepaid expenses and other	5,372	(33,196)
Deferred compensation plan asset	(20,529)	-
Increase (decrease) in operational liabilities:		
Accounts payable	32,415	(194,394)
Accrued expenses	9,357	52,798
Deferred compensation plan liability	21,640	20,514
Deferred revenue	(142,031)	63,878
Deferred rent	(16,607)	(11,544)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 379,131</b>	<b>\$ (40,054)</b>

The accompanying notes are an integral part of these financial statements.

**NATIONAL HEALTH COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

Note 1. **Organization and Summary of Significant Accounting Policies**

**Organization** - The National Health Council, Inc. (the Council) is a not-for-profit organization that provides national focus for sharing common concerns, evaluating needs, and pooling ideas and resources for national organizations in the health field.

**Income Tax Status** - The Council is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Income from certain activities not directly related to the Council's tax-exempt purpose are subject to taxation as unrelated business income.

**Basis of Accounting** - The financial statements have been prepared on the accrual basis of accounting. Accordingly, the Council recognizes revenue when earned and expenses when incurred.

**Basis of Presentation** - The financial statements have been presented in accordance with U.S. generally accepted accounting principles, including those applicable to nonprofit organizations. As such, the Council is required to report information regarding its financial position and activities according to two classes of net assets:

*Without donor restrictions* - Net assets without donor restrictions represent funds which are fully available for general operations.

*With donor restrictions* - Net assets with donor restrictions are comprised of funds which are restricted by donors for a specific purpose, for a specific time period, or in perpetuity.

**Cash** - For purposes of the statements of cash flows, the Council considers certificates of deposit to be cash along with its operating checking, savings and money market accounts.

**Investments** - Investments in marketable securities with readily determinable fair values are stated at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

**Pledges and Accounts Receivable** - Pledges receivable represent sponsorships pledged but not yet received. Accounts receivable represent amounts billed but not yet collected. These items, which are uncollateralized, are stated at the amount management expects to collect from balances outstanding at year-end. All pledges are expected to be collected within one year. Based on management's assessment of the payment history of members with outstanding balances and management's current relationships with those members, management has concluded that realization losses, if any, on balances outstanding at year-end would be immaterial.

**NATIONAL HEALTH COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

Note 1. **Organization and Summary of Significant Accounting Policies** - (Continued)

**Property and Equipment** - Property and equipment is recorded at cost. The Council capitalizes assets whose costs are in excess of \$2,000. Depreciation is computed using the straight-line method over estimated useful lives of three to ten years. Amortization of leasehold improvements is taken over the term of the lease. Expenditures for maintenance and repairs are charged to expense as incurred.

When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in income or expense.

**Revenue Recognition** - Membership dues are recognized over a calendar year period for all members. Dues collected in advance are recorded as deferred revenue and recognized as revenue in the following year.

Contributions are recognized as revenue at the earlier of when they are received or when the Council has received an unconditional promise to give a specific amount. The Council reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cost reimbursable grants are recognized as revenue when the related costs are incurred.

Contributions of donated services that create or enhance non-financial assets or require specialized skills that would typically need to be purchased if not provided by donation are recorded as revenue and expense at their estimated fair values in the period received. Such amounts are reflected as revenue and expense in the accompanying statement of activities.

**Expense Allocations** - The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NATIONAL HEALTH COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

Note 1. **Organization and Summary of Significant Accounting Policies** - (Continued)

**Expense Allocations** - (Continued)

Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of the general and administrative costs that benefit multiple functional areas have been allocated across Program and other Supporting Services and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include computer fees, advertising fees, supplies, telephone, postage and shipping, rent, equipment rental and maintenance, printing, and depreciation, which are allocated on a time and effort basis.

**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 amount of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Note 2. **Change in Accounting Principle** - The Council adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-14, *Presentation of Not-for-profit Financial Statements*. ASU 2016-14 requires the presentation of natural expenses by the various types of programs and supporting services, requires certain information about an organization's liquidity and cost allocation methods, clarified the definition of management and general costs, and modified the terminology of net asset categories, among other changes. The implementation of this ASU had no effect on the changes in net asset classes for either period presented.

Note 3. **Liquidity and Availability** - The following represents the Council's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash	\$2,672,822
Investment	522,460
Pledges and accounts receivable	<u>629,508</u>
Total financial assets	\$3,824,790
Less those unavailable for general expenditures:	
Restricted by donors for time and purposes	<u>1,527,558</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$2,297,232</u></u>

**NATIONAL HEALTH COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

Note 3. **Liquidity and Availability** - (Continued)

The goal of the Council is to maintain sufficient financial assets to meet between two and six-months (approximately \$1,600,000) of operating expenses. As part of the liquidity plan, cash in excess of monthly operating requirements is invested in a money market account or short-term mutual fund.

Note 4. **Investment** - The Council invests cash in excess of its immediate needs in marketable securities, which are reported as investment in the statements of financial position. Following is a schedule of the investment held at December 31:

	2018	2017
Principal Investments Short-term Income Fund	\$ 522,460	\$ 517,985

The following summarizes investment income for the years ended December 31:

	2018	2017
Interest and dividends	\$ 11,322	\$ 8,931
Unrealized gain (loss) on investment	(5,992)	392
Totals	\$ 5,330	\$ 9,323

Management has evaluated the significance of internal expenses related to the generation of investment income, and believes these expenses to be immaterial to the financial statements.

Note 5. **Fair Value Measurements** - The Council measures investments at fair value as required by the Fair Value Measurements Topic of the Accounting Standards Codification of the Financial Accounting Standards Board (FASB). The framework provides a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of fair value hierarchy are described as follows: level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets; level 2 inputs are observable market data, generally other than quoted prices; level 3 inputs are significant unobservable data. There are no level 2 or level 3 valued investments for the years ended December 31, 2018 and 2017.

**NATIONAL HEALTH COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

Note 5. **Fair Value Measurements** - (Continued)

Following is a description of the valuation methodology used for assets measured at fair value:

*Fixed-income mutual fund* - Securities which are traded on a national securities exchange are valued at the last reported sales price on the last business day of the year.

As of December 31, 2018 and 2017, the Council's investment in a fixed-income mutual fund had a fair value, using level 1 measurement, of \$522,460 and \$517,985, respectively.

Note 6. **Concentration of Credit Risk** - Financial instruments that potentially subject the Council to concentrations of credit risk include cash deposits with commercial banks. The Council's cash management policies limit its exposure to concentrations of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash accounts exceeded the maximum FDIC coverage limit of \$250,000 at times throughout the year and at year-end.

Note 7. **Property and Equipment** - Property and equipment consisted of the following as of December 31:

	2018	2017
Furniture, equipment and software	\$ 181,397	\$ 178,598
Leasehold improvements	153,708	153,708
Subtotals	\$ 335,105	\$ 332,306
Less, Accumulated depreciation and amortization	213,172	184,527
Totals	<u>\$ 121,933</u>	<u>\$ 147,779</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was \$28,644 and \$34,201, respectively.

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Note 8. **Grant** - The Council entered into a cost-reimbursable grant agreement with the Patient-Centered Outcomes Research Institute (PCORI). Led by the Council, and in collaboration with other nonprofit stakeholders, this grant seeks to engage the patient community and others to create a non-disease-oriented, patient-specific curriculum on health care quality. The period of the grant is June 15, 2015 through March 31, 2018. The total value of the grant was \$246,314, of which \$68,175 and \$122,877 was recognized as revenue during the years ended December 31, 2018 and 2017.

The Council entered into another cost-reimbursable grant agreement with PCORI. Led by the Council, and in collaboration with other nonprofit stakeholders, this grant seeks to encourage the active integration of patients, caregivers, clinicians/providers, industry, researchers and other stakeholders in the research process. The period of the grant is June 1, 2018 through December 31, 2019. The total value of the grant was \$250,000, of which \$150,000 was recognized as revenue during the year ended December 31, 2018.

Note 9. **Net Assets with Donor Restrictions** - Net assets with donor restrictions consist of contributions having purpose or time restrictions that will be met by the Council in a future period. Net assets with donor restrictions were restricted for the following purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditures for specific purpose:		
Voluntary Health Agency Leadership Conference	\$ 244,321	\$ 276,752
Policy Development Fund	247,861	150,519
Fair Market Value Calculator	308,030	-
Patient Engagement	60,462	108,766
Ecosystem - Value	122,463	31,117
Patient Journey Mapping Toolbox	124,381	-
Government Relations Representatives Retreat	68,750	196,350
Ecosystem - Payment Models	85,183	37,414
Real World Evidence	49,876	44,475
Ecosystem - Quality	34,124	50,376
Advocacy Training	36,616	38,202
Clinical Outcomes Assessment	23,382	-
Patient Focused Drug Development	5,126	20,694
Patient Exchange Experience	875	875
CMSO Conference	-	18,881
Subtotals	<u>\$ 1,411,450</u>	<u>\$ 974,421</u>
Subject to passage of time:		
Patient Engagement	<u>116,108</u>	<u>27,352</u>
Totals	<u>\$ 1,527,558</u>	<u>\$ 1,001,773</u>

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Note 10. **Net Assets Released from Donor Restrictions** - Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31:

	2018	2017
Voluntary Health Agency Leadership Conference	\$ 392,432	\$ 217,323
Policy Development Fund	284,157	496,533
Fair Market Value Calculator	16,970	-
Patient Engagement	387,547	467,081
Ecosystem - Value	188,654	665,843
Patient Journey Mapping Toolbox	619	-
Government Relations Representatives Retreat	292,600	106,939
Ecosystem - Payment Models	82,231	17,586
Real World Evidence	19,599	88,822
Ecosystem - Quality	41,252	74,359
Advocacy Training	1,586	2,279
Clinical Outcomes Assessment	1,618	-
Patient Focused Drug Development	15,569	32,964
Patient Exchange Experience	-	3,602
CMSO Conference	48,881	121,807
Progressive Approval	-	19,773
HIPAA	-	6,761
Total	<u>\$ 1,773,715</u>	<u>\$ 2,321,672</u>

Note 11. **Retirement and Deferred Compensation Plans** - The Council maintains a defined contribution retirement plan qualified under Internal Revenue Code Section 403(b) covering substantially all employees. Contributions by the Council are based on fixed percentages of compensation, up to 8%, based on the participants' years of service.

The Council also maintains a deferred compensation plan under Internal Revenue Code Section 457(b). Highly compensated employees with a minimum of six months of service may be eligible to participate.

Total expense under these plans for the years ended December 31, 2018 and 2017 was \$69,823 and \$64,995, respectively.



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Note 11. **Retirement and Deferred Compensation Plans** - (Continued)

Effective January 1, 2017, the Council adopted a nonqualified deferred compensation plan within the meaning of Section 457(f) of the Internal Revenue Code for the future benefit of the Council's Chief Executive Officer (CEO). Under the plan provisions, an amount equal to 5% of the CEO's salary and bonus paid shall be credited to an account each calendar year beginning January 1, 2017 and ending December 31, 2019. The 457(f) plan expense recognized for the years ended December 31, 2018 and 2017 was \$21,600 and \$20,514, respectively.

The Council has also established a supplemental tax deferred retirement plan under Section 403(b) of the Internal Revenue Code. Under the Plan, participants are permitted to contribute a portion of their compensation that accumulates on a tax-deferred basis.

Note 12. **Concentrations** - Sixty-nine percent of pledges receivable at December 31, 2017 were from one sponsor.

Note 13. **Commitments** - The Council entered into an office lease extension expiring on July 31, 2024. The lease extension provided for an abatement of rent for the six-month period beginning August 1, 2014. The lease also call for escalations in lease payments by 2.5% annually on the anniversary of the lease. The lease also included a tenant improvement allowance. The lease abatement, scheduled rent increases, and the tenant improvement allowance give rise to a deferred lease obligation, which is amortized over the term of the lease.

Rent expense was \$198,412 and \$204,203 for the years ended December 31, 2018 and 2017, respectively.

The Council entered into a five-year non-cancellable operating lease for a copier expiring October 2020. The lease payments are \$306 per month.

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Note 13. **Commitments** - (Continued)

Future minimum lease commitments are as follows:

Year ending December 31,	Office Lease	Copier Lease	Totals
2019	\$ 214,494	\$ 3,667	\$ 218,161
2020	222,599	2,750	225,349
2021	228,149	-	228,149
2022	233,850	-	233,850
2023	239,710	-	239,710
Thereafter	224,932	-	224,932
Totals	\$ 1,363,734	\$ 6,417	\$ 1,370,151

The Council enters into agreements with hotels for future events. These agreements generally require guarantees for minimum room utilization or other items in order to avoid attrition costs.

Note 14. **Reclassifications** - Certain amounts from the prior year have been reclassified to conform to the current year presentation.

Note 15. **Subsequent Events** - In preparation of these financial statements, the Council has evaluated events and transactions for potential recognition or disclosure through March 15, 2019, which is the date the financial statements were available to be issued.