CHP 11-99 Foundation
(A California Not-for-Profit Corporation)

Financial Report

Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
CHP 11-99 Foundation
Fullerton, California

Report on the Financial Statements

We have audited the accompanying financial statements of CHP 11-99 Foundation (A California Not-for-Profit Corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets 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.

Auditor's 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 audit 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 auditor's 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 Foundation'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 Foundation'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.

Basis for Qualified Opinion

As explained in Note 3 to the financial statements, the CHP 11-99 Foundation has excluded certain promises to give from contributions receivable and donation revenues in the accompanying statements of financial position and activities and changes in net assets, respectively. Accounting principles generally accepted in the United States of America require that unconditional promises to give be recognized as income at the time a promise is received.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of CHP 11-99 Foundation as of December 31, 2017 and 2016, 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.

Hutchinson and Bloodgood LLP

June 28, 2018

CHP 11-99 FOUNDATION
(A California Not-for-Profit Corporation)

Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash	**$ 3,189,098**	$ 3,125,743
Other receivable	**117,231**	22,018
Prepaid expenses	**71,132**	51,066
Other current assets	**274,969**	231,545
Total current assets	**3,652,430**	3,430,372
Investment portfolios, Capital Guardian	**48,596,894**	38,791,767
Property and equipment, net	**10,723**	9,349
Other assets	**30,450**	40,267
Total assets	**$ 52,290,497**	$ 42,271,755
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	**$ 383,411**	$ 410,655
Deferred income	**70,398**	55,050
Total current liabilities	**453,809**	465,705
Commitments (Note 8)		
Net assets	**51,836,688**	41,806,050
Total liabilities and net assets	**$ 52,290,497**	$ 42,271,755

CHP 11-99 FOUNDATION
(A California Not-for-Profit Corporation)

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Support and revenues		
Supporter contributions	**$ 2,235,700**	$ 2,091,300
Less related costs	**368,364**	318,356
	1,867,336	1,772,944
Golf and fundraiser events	**1,352,159**	1,642,093
Less related costs	**740,802**	774,545
	611,357	867,548
Donations	**1,669,271**	1,309,796
Solicitations and appeals	**669,187**	599,490
Investment gain	**8,545,541**	1,712,127
Miscellaneous income	**59,856**	46,748
	10,943,855	3,668,161
Net support and revenues	**13,422,548**	6,308,653
Operating expenses - administrative	**(926,707)**	(880,111)
Scholarship program	**(1,985,607)**	(1,821,200)
Benefits and related programs	**(479,596)**	(436,055)
Increase in net assets	**10,030,638**	3,171,287
Net assets at beginning of year	**41,806,050**	38,634,763
Net assets at end of year	**$ 51,836,688**	$ 41,806,050

CHP 11-99 FOUNDATION
(A California Not-for-Profit Corporation)

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	**$ 10,030,638**	$ 3,171,287
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	**9,271**	6,115
Net realized and unrealized gain on investments	**(7,746,941)**	(974,059)
Stock donations	**(9,876)**	(24,902)
Change in operating assets and liabilities		
Other receivable	**(95,213)**	25,440
Prepaid expenses	**(20,066)**	(6,995)
Other current assets	**(43,424)**	(4,853)
Other assets	**9,817**	(37,267)
Accounts payable and accrued expenses	**(27,244)**	30,614
Deferred income	**15,348**	17,100
Total adjustments	**(7,908,328)**	(968,807)
Net cash provided by operating activities	**2,122,310**	2,202,480
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	**(11,669,218)**	(13,111,403)
Proceeds from sale of investments	**9,620,908**	11,373,777
Purchase of property and equipment	**(10,645)**	(4,602)
Net cash used in investing activities	**(2,058,955)**	(1,742,228)
Net increase in cash	**63,355**	460,252
CASH, beginning of year	**3,125,743**	2,665,491
CASH, end of year	**$ 3,189,098**	$ 3,125,743

NOTE 1. ORGANIZATION

The CHP 11-99 Foundation (A California Not-for-Profit Corporation) (the Foundation), located in Fullerton, California, was founded in 1981 as a charitable nonprofit organization. The Foundation's purpose is to provide benefits and scholarships to California Highway Patrol (CHP) employees and their families.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation: The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. For the years ended December 31, 2017 and 2016, the Foundation had no temporarily or permanently restricted net assets.

Donated Services: No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such services.

Cash and Cash Equivalents: The Foundation considers all highly-liquid investments available for current use with an initial maturity of three (3) months or less, when purchased, to be cash equivalents.

Investments: Investments in marketable securities and debt securities are reported at fair value in the statements of financial position. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets.

Investments acquired by gift are recorded at fair value at the date of the gift. The Foundation’s policy is to liquidate all gifts of investments as soon as possible after receipt.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair value of the individual investments for the year, or since the acquisition date, if acquired during the year.

Other Current Assets: Other current assets include inventories that are distributed with new memberships, distributed on a complimentary basis, sold to existing members, or sold at various events. Inventories are stated at the lower of average cost or net realizable value.

Property, Equipment, and Depreciation: Property and equipment are recorded at acquisition cost. Proceeds from the sale of tangible personal property assets are transferred to unrestricted fund balances. Depreciation is computed using the straight-line or accelerated method over the assets estimated useful lives of five to seven years.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Assets: Other assets include the carrying value of vehicles, owned by the Foundation, and leased for the benefit of one (1) officer's family in 2017 and 2016. The cost of the vehicles for the years ended December 31, 2017 and 2016 was approximately $50,000, and the vehicles have an estimated useful life of five (5) years with a $1,000 residual value per vehicle. As of December 31, 2017 and 2016, the carrying value of the vehicles was approximately $30,000 and $40,000, respectively.

Scholarship Program: The Foundation awards post-secondary level educational scholarships to CHP family members. Upon approval by the Scholarship Committee, scholarship expenditures are considered incurred and award letters are sent to the successful applicants and are expected to be paid within one (1) year. Scholarship funds are disbursed upon receipt of valid evidence of applicants' post-secondary level education enrollments. Scholarship funds not disbursed at year-end were included in accounts payable and accrued expenses as of December 31, 2017 and 2016, totaling approximately $87,900 and $110,900, respectively.

Deferred Income: The Foundation receives deposits toward membership from prospective members whose applications are pending approval until background checks have been completed. Such amounts at year-end are reflected as income in the current year. These amounts are recognized as income unless the background checks fail. Deferred income also includes deposits received prior to year-end for fund-raising events in the subsequent year.

Revenue Recognition: Other than deposits from new member applicants, member payments and all contributions are recognized as revenue when received. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Income Taxes: The Foundation is a not-for-profit corporation as defined in Section 501(c)(3) of the Internal Revenue Code (the Code) and is, therefore, exempt from Federal income tax under Section 501(a) of the Code. In addition, the Foundation is a Section 509(a)(1) organization as defined in the Code and is not a private foundation. The Foundation is also exempt from state taxes under Section 23701d of the California Revenue and Taxation Code. Under applicable laws and regulations, the Foundation has been determined to be exempt from Federal income and California income and franchise taxes. In addition, the Foundation believes it has no income subject to unrelated business income taxes.

The Foundation's policy is to recognize tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of December 31, 2017, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. As of December 31, 2017, the Foundation's annual tax filings for the prior three (3) years are open for audit by the Internal Revenue Service and for the prior four (4) years by the Franchise Tax Board.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement: In August 2016, 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. This ASU improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this ASU will have on its financial statements.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. These reclassifications have no effect on net assets, or the change in net assets, as previously reported.

Subsequent Events: The Foundation has evaluated all subsequent events through June 28, 2018, which is the date the financial statements are available to be issued, and has determined that no events or transactions require recognition or disclosure in these financial statements.

NOTE 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give by donors and are recorded at net realizable value. At December 31, 2017 and 2016, the Foundation did not record any contributions receivable.

The Foundation has excluded certain promises to give and pledges from contributions receivable and donation revenues in the accompanying statements of financial position and activities and changes in net assets, respectively. These promises should be included to conform to accounting principles generally accepted in the United States of America (U.S. GAAP). If accounted for in conformity with U.S. GAAP, as of December 31, 2017 and 2016, contributions receivable and temporarily restricted net assets would have been increased by $1,872,219 and $1,978,468, respectively, and the change in net assets would have decreased by $106,250 and $340,463, respectively.

NOTE 4. INVESTMENTS

As of December 31, 2017 and 2016, the investments, by major security types are summarized as follows:

	2017		2016	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 1,864,166	$ 1,864,166	$ 1,348,915	$ 1,348,915
Fixed income				
Asset and mortgage backed securities	436,108	435,612	429,722	415,928
Government and municipal bonds	2,755,551	2,727,458	2,032,454	2,014,081
Corporate bonds	958,252	957,897	1,189,528	1,182,777
Mutual funds	5,037,032	4,983,543	4,583,231	4,402,102
Equities				
Foreign and domestic equity portfolio	22,353,382	31,125,456	20,784,107	24,615,310
Mutual funds	5,899,289	6,502,762	5,699,400	4,812,654
	$ 39,303,780	$ 48,596,894	$ 36,067,357	$ 38,791,767

The components of investment return were as follows for the years ended December 31:

	2017	2016
Interest and dividends - investment portfolio	$ 1,098,895	$ 1,016,959
Other interest income	290	442
Net realized and unrealized gains on investments reported at fair value	7,746,941	974,059
Investment fees	(300,585)	(279,333)
Total investment gain	$ 8,545,541	$ 1,712,127

NOTE 5. FAIR VALUE MEASUREMENT

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. The fair value of investments in cash and cash equivalents, mutual funds, and common stocks are determined using Level 1 inputs.

NOTE 5. FAIR VALUE MEASUREMENT (Continued)

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. The fair value of investments in asset and mortgage backed securities, government and municipal bonds, and corporate bonds are determined using Level 2 inputs.

Level 3: Valuations based on inputs that are unobservable in the market and significant to the overall fair value measurement. For the years ended, December 31, 2017 and 2016, there were no investments valued based on Level 3 inputs.

Assets measured at fair value on a recurring basis consisted of the following types of instruments as of December 31, 2017:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	$ 1,864,166	$ --	$ 1,864,166
Asset and mortgage backed securities	--	435,612	435,612
Government and municipal bonds	--	2,727,458	2,727,458
Corporate bonds	--	957,897	957,897
Mutual funds			
Bond funds	4,983,543	--	4,983,543
Growth funds	6,502,762	--	6,502,762
Common stocks			
Energy	2,319,866	--	2,319,866
Materials	1,194,304	--	1,194,304
Industrials	3,301,969	--	3,301,969
Consumer discretionary	3,631,477	--	3,631,477
Consumer staples	3,450,748	--	3,450,748
Health care	2,762,960	--	2,762,960
Financials	4,937,783	--	4,937,783
Information technology	5,946,404	--	5,946,404
Telecommunication services	1,185,735	--	1,185,735
Utilities	915,374	--	915,374
Real estate	1,478,836	--	1,478,836
	$ 44,475,927	$ 4,120,967	$ 48,596,894

NOTE 5. FAIR VALUE MEASUREMENT (Continued)

Assets measured at fair value on a recurring basis consisted of the following types of instruments as of December 31, 2016:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	$ 1,348,915	$ --	$ 1,348,915
Asset and mortgage backed securities	--	415,928	415,928
Government and municipal bonds	--	2,014,081	2,014,081
Corporate bonds	--	1,182,777	1,182,777
Mutual funds			
Bond funds	4,402,102	--	4,402,102
Growth funds	4,812,654	--	4,812,654
Common stocks			
Energy	2,439,807	--	2,439,807
Materials	814,045	--	814,045
Industrials	2,330,270	--	2,330,270
Consumer discretionary	2,821,811	--	2,821,811
Consumer staples	2,774,489	--	2,774,489
Health care	2,282,758	--	2,282,758
Financials	3,749,428	--	3,749,428
Information technology	4,179,567	--	4,179,567
Telecommunication services	1,429,557	--	1,429,557
Utilities	802,267	--	802,267
Real estate	991,311	--	991,311
	$ 35,178,981	$ 3,612,786	$ 38,791,767

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	2017	2016
Furniture and equipment	$ 159,850	$ 157,875
Less accumulated depreciation	149,127	148,526
	$ 10,723	$ 9,349

Depreciation expense for the years ended December 31, 2017 and 2016 was $9,271 and $6,115, respectively.

NOTE 7. DEFERRED INCOME

The Foundation collects dues related to member applications, the approval for which is pending completion of background checks. Amounts collected for pending applications at December 31, 2017 and 2016 were $28,500 and $19,000, respectively.

The Foundation also received deposits for future fundraising events. Advance deposits received as of December 31, 2017 and 2016 were $41,898 and $36,050, respectively.

NOTE 8. COMMITMENTS

The Foundation leases two (2) office spaces and the leases are accounted for as operating leases. During 2017, the Foundation extended the Fullerton office lease for three (3) years terminating in 2020 and entered into an office lease in San Jose for three (3) years starting in March 2018. As of December 31, 2017, the Foundation entered into various service agreements terminating through 2019. At December 31, 2017, the future minimum payments are as follows:

Years Ending December 31:	Amount
2018	$ 115,552
2019	112,917
2020	109,622
2021	5,724
Total	$ 343,815

Occupancy and equipment rent expense for the years ended December 31, 2017 and 2016 was $70,518 and $60,568, respectively.

NOTE 9. CONCENTRATIONS OF CREDIT RISK

The Foundation's financial instruments that are exposed to concentrations of credit risk include cash, cash equivalents, and investments.

The Foundation’s cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2017, all interest and non-interest bearing accounts at an FDIC-insured institution are insured up to $250,000 per financial institution. Periodically, the Foundation may maintain balances in excess of insured amounts for interest and non-interest bearing deposit accounts. As of December 31, 2017, approximately $2,632,000 was uninsured. The Foundation has not experienced any losses on any deposits.

The Foundation has significant investments in cash and cash equivalents, stocks, bonds, asset and mortgage backed securities and mutual funds, and is therefore subject to concentrations of credit risk. The investments, in general, are subject to various risks, such as interest rate, credit, and overall market volatility risk. Additionally, the value, liquidity, and related income of the investment securities are sensitive to changes in economic conditions and may be affected by shifts in the market’s perception of issuers and changes in interest rates. Certain investments are less liquid and may have restrictions on their sale. Forced liquidation, although not expected at this time, may affect the estimated value of such investments. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investments are made by investment managers engaged by the Foundation and the investments are monitored for the Foundation by an investment advisor. Though the market value of investments is subject to fluctuation on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

NOTE 10. DEFINED CONTRIBUTION PLAN

The Foundation approved a tax sheltered annuity plan (the Plan), effective May 1999 and amended during the year ended December 31, 2013. Full-time salaried employees, who have completed 90 days of employment are eligible to participate in the Plan and make elective salary deferral contributions. The Plan allows discretionary non-matching and matching employer contributions to the Plan. For the years ended December 31, 2017 and 2016, the Foundation paid $68,292 and $53,836, respectively, in employer matching contributions.