

THE CHILDREN'S HEALTH FUND

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2016

THE CHILDREN'S HEALTH FUND

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**Board of Directors
The Children's Health Fund**

Report on the Financial Statements

We have audited the accompanying financial statements of The Children's Health Fund, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 The Children's Health Fund as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Children's Health Fund's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

June 30, 2017

THE CHILDREN'S HEALTH FUND

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016
(With Summarized Financial Information
for December 31, 2015)

ASSETS	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 1,553,207	\$ 1,203,093
Investments - allocated (Note 3)	2,122,700	2,927,091
Government grants receivable	545,243	333,485
Contributions receivable (Note 4)	4,741,202	4,232,146
Beneficial interest in lead trust (Note 5)	6,350	40,000
Prepaid expenses and deposits	<u>238,455</u>	<u>183,495</u>
Total current assets	9,207,157	8,919,310
Investments - allocated (Note 3)	2,023,819	2,000,000
Contributions receivable - long-term (Note 4)	192,011	1,052,559
Beneficial interest in lead trust (Note 5)		6,338
Fixed assets - net (Note 6)	<u>1,481,041</u>	<u>1,892,703</u>
Total assets	<u>\$ 12,904,028</u>	<u>\$ 13,870,910</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 628,554	\$ 392,928
Line of credit payable (Note 7)		1,000,000
Grants payable (Note 8)	<u>5,435,320</u>	<u>4,586,827</u>
Total current liabilities	6,063,874	5,979,755
Grants payable - long-term (Note 8)	<u>727,567</u>	<u>1,781,716</u>
Total liabilities	<u>6,791,441</u>	<u>7,761,471</u>
Net assets (Exhibit B)		
Unrestricted	1,685,724	2,019,562
Temporarily restricted (Note 9)	2,426,863	2,089,877
Permanently restricted (Note 10)	<u>2,000,000</u>	<u>2,000,000</u>
Total net assets	<u>6,112,587</u>	<u>6,109,439</u>
Total liabilities and net assets	<u>\$ 12,904,028</u>	<u>\$ 13,870,910</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE CHILDREN'S HEALTH FUND

EXHIBIT B

STATEMENT OF ACTIVITIES

**YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information
for the Year Ended December 31, 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Revenues, gains, losses and other support					
Contributions and grants					
Foundations	\$ 1,431,622	\$ 3,396,473		\$ 4,828,095	\$ 3,084,248
Corporations	1,180,165	1,606,329		2,786,494	4,460,357
Individuals	1,863,407	218,601		2,082,008	3,140,253
Government grants	436,567			436,567	338,676
Special events revenues	\$ 1,667,883				
Costs of direct benefits to donors	<u>(320,093)</u>				
Net special events revenues	1,347,790			1,347,790	651,561
Change in value of beneficial interest in lead trust	12			12	2,196
Investment income (loss) (Note 3)	106,741	83,819		190,560	(37,626)
Program fees	10,000			10,000	
Net assets released from restrictions					
Satisfaction of program restrictions (Note 9)	<u>4,968,236</u>	<u>(4,968,236)</u>			
Total revenues, gains, losses and other support	<u>11,344,540</u>	<u>336,986</u>		<u>11,681,526</u>	<u>11,639,665</u>
Expenses (Exhibit C)					
Program services					
Children's health care					
New York program	2,707,348			2,707,348	2,208,416
Public health and crisis response	244,118			244,118	299,028
National programs	4,690,932			4,690,932	5,246,688
Education	<u>1,491,768</u>			<u>1,491,768</u>	<u>1,306,097</u>
Total program services	<u>9,134,166</u>			<u>9,134,166</u>	<u>9,060,229</u>

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THE CHILDREN'S HEALTH FUND

EXHIBIT B

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STATEMENT OF ACTIVITIES

**YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information
for the Year Ended December 31, 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Expenses (Exhibit C) (continued)					
Supporting services					
Management and general	\$ 1,240,450			\$ 1,240,450	\$ 1,385,072
Fund raising	<u>1,303,762</u>			<u>1,303,762</u>	<u>1,398,086</u>
Total supporting services	<u>2,544,212</u>			<u>2,544,212</u>	<u>2,783,158</u>
Total expenses	<u>11,678,378</u>			<u>11,678,378</u>	<u>11,843,387</u>
Change in net assets (Exhibit D)	(333,838)	\$ 336,986		3,148	(203,722)
Net assets - beginning of year	<u>2,019,562</u>	<u>2,089,877</u>	\$ 2,000,000	<u>6,109,439</u>	<u>6,313,161</u>
Net assets - end of year (Exhibit A)	<u>\$ 1,685,724</u>	<u>\$ 2,426,863</u>	<u>\$ 2,000,000</u>	<u>\$ 6,112,587</u>	<u>\$ 6,109,439</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information
for the Year Ended December 31, 2015)

	Program Services - Children's Health Care					Supporting Services			Total		
	New York Program	Public Health and Crisis Response	National Programs	Education	Total	Management and General	Fund Raising	Special Events	Total	2016	2015
Salaries	\$ 736,053	\$ 16,418	\$ 1,118,746	\$ 781,098	\$ 2,652,315	\$ 542,121	\$ 698,339		\$ 1,240,460	\$ 3,892,775	\$ 3,804,446
Payroll taxes and employee benefits	156,592	7,402	252,462	196,287	612,743	164,466	197,908		362,374	975,117	1,007,079
Total salaries and related expenses	892,645	23,820	1,371,208	977,385	3,265,058	706,587	896,247		1,602,834	4,867,892	4,811,525
Contributions and grants	1,304,957	218,312	2,510,031		4,033,300					4,033,300	3,987,796
Professional fees	239,382		44,217	129,152	412,751	252,920	83,137		336,057	748,808	931,179
Rent (Note 11)	67,296	1,525	104,508	72,709	246,038	51,493	64,733		116,226	362,264	355,646
Travel and conferences	13,983	245	163,716	41,281	219,225	17,853	13,507		31,360	250,585	291,331
Office supplies and expenses	83,358	117	43,466	37,058	163,999	109,486	54,752		164,238	328,237	326,508
Dues and subscriptions	2,156	15	17,628	17,946	37,745	12,634	15,006		27,640	65,385	31,909
Postage and shipping	1,425	8	9,217	89,163	99,813	4,493	73,199		77,692	177,505	39,836
Printing, advertising and website	11,580	38	25,386	99,593	136,597	7,624	49,836		57,460	194,057	324,067
Maintenance and lease of equipment	29,900	38	33,175	7,895	71,008	10,138	3,694		13,832	84,840	94,897
Insurance	20,792		32,649	18,536	71,977	33,404	24,028		57,432	129,409	147,221
Venue, catering and entertainment								\$ 320,093	320,093	320,093	522,507
Depreciation and amortization	39,874		335,731	1,050	376,655	12,009	25,623		37,632	414,287	427,779
Bad debt											48,646
Interest (Note 7)						21,809			21,809	21,809	25,047
Total expenses	2,707,348	244,118	4,690,932	1,491,768	9,134,166	1,240,450	1,303,762	320,093	2,864,305	11,998,471	12,365,894
Less costs of direct benefits to donors								(320,093)	(320,093)	(320,093)	(522,507)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,707,348	\$ 244,118	\$ 4,690,932	\$ 1,491,768	\$ 9,134,166	\$ 1,240,450	\$ 1,303,762	\$ -	\$ 2,544,212	\$ 11,678,378	\$ 11,843,387

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE CHILDREN'S HEALTH FUND

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 3,148	\$ (203,722)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Net loss on investments	33,462	319,210
Depreciation and amortization	414,287	427,779
Change in value of beneficial interest in lead trust	(12)	(2,196)
Decrease (increase) in assets		
Government grants receivable	(211,758)	(59,637)
Contributions receivable	351,492	(273,184)
Prepaid expenses and deposits	(54,960)	81,904
Change in beneficial interest in lead trust	40,000	40,000
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	235,626	4,824
Grants payable	(205,656)	(1,529,962)
Net cash provided (used) by operating activities	<u>605,629</u>	<u>(1,194,984)</u>
Cash flows from investing activities		
Purchase of investments		(49,719)
Proceeds from sale of investments	747,110	1,400,000
Purchase of fixed assets	(2,625)	(618,954)
Net cash provided by investing activities	<u>744,485</u>	<u>731,327</u>
Cash flows from financing activities		
Principal payments on line of credit	(1,000,000)	
Proceeds from line of credit		1,000,000
Net cash provided (used) by financing activities	<u>(1,000,000)</u>	<u>1,000,000</u>
Net change in cash and cash equivalents	350,114	536,343
Cash and cash equivalents - beginning of year	<u>1,203,093</u>	<u>666,750</u>
Cash and cash equivalents - end of year	<u>\$ 1,553,207</u>	<u>\$ 1,203,093</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 21,809</u>	<u>\$ 25,047</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - NATURE OF ENTITY

The Children's Health Fund (CHF) is a not-for-profit organization incorporated in New York State. The Children's Health Fund is committed to providing health care to the nation's most medically underserved children and their families through the development and support of innovative primary care medical programs, response to public health crises and the promotion of guaranteed access to appropriate health care for all children.

CHF's primary sources of revenue are contributions and grants.

CHF is a charitable organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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

Cash equivalents - Cash equivalents include highly liquid instruments with maturities, when acquired, of three months or less.

Investments - Investments are carried at fair value. CHF invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CHF has the ability to access. Level 2 inputs to the valuation methodology include:

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

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 as compared to 2015.

Corporate stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - money market fund and U.S. Treasury Fund - Valued at the net asset value ("NAV") of shares held at year end.

Mutual funds - TIFF multi-asset fund - Valued at the NAV of units of a bank collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while CHF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The assets at fair value as of December 31, 2016 are set forth by level within the fair value hierarchy in Note 3.

Government grants receivable - Government grants receivable are recorded for expenditures made in accordance with grant agreements. A receivable is recorded when expenses incurred exceed cash received under the terms of the contract.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their fair value, which is measured at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - Management determines whether an allowance for doubtful accounts should be provided for government grants and contributions receivable. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions, subsequent receipts and historical information. There was no allowance for doubtful accounts as of December 31, 2016.

Beneficial interest in lead trust - The beneficial interest in lead trust is recorded at the present value of the future cash flows.

Fixed assets - Fixed assets are recorded at cost. Items with a cost in excess of \$500 and an estimated useful life of greater than one year are capitalized. Depreciation of assets is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 10 years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the term of the lease or the estimated useful lives of the improvements.

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Board-designated funds represent unrestricted funds which are designated by Board action for specific purposes.

Temporarily restricted net assets - Temporarily restricted net assets are those funds whose use has been limited by donors to a specific time period or purpose.

Permanently restricted net assets - Permanently restricted net assets are restricted in perpetuity by donors.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily restricted or permanently 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 stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Government grant revenues - Revenues from government contracts are recognized when reimbursable expenses are incurred under the terms of the contract. Such revenues are subject to audit by the agencies. No provision for any disallowances is reflected in the financial statements, since management does not anticipate any material adjustments. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in penalties and exclusion from the government programs.

Special events - CHF conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenues in the accompanying statement of activities.

Program fees - CHF receives program fees for program-related guidance provided to non-profit organizations. Revenue is recognized when earned based on signed agreements.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and grant expenses - Contributions and grant expenses are recorded at the time they are approved by the Board of Directors. The grants are recorded as current or long-term based on the required payment schedule. Grants due in more than one year are discounted using risk-adjusted rates.

Rent expense - CHF leases space at various locations. All leases are operating leases and are reflected on the straight-line basis. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Advertising - Advertising costs are expensed when incurred. Advertising for the year ended December 31, 2016 was \$70,469.

Summarized financial information for 2015 - The financial statements include certain prior-year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Uncertainty in income taxes - CHF has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2013 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 30, 2017, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments consist of:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate stocks	\$ 26,424		\$ 26,424
Mutual funds			
Money market fund	22,127		22,127
U.S. Treasury fund	22,784		22,784
TIFF multi-asset fund	<u> </u>	\$ 4,075,184	<u>4,075,184</u>
	<u>\$ 71,335</u>	<u>\$ 4,075,184</u>	<u>\$ 4,146,519</u>

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3 - INVESTMENTS (continued)

Fair Value of Investments in Entities that use NAV

The following table summarizes investments measured at fair value using NAV as a practical expedient as of December 31, 2016:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Unfunded Commitments</u>	<u>Redemption Notice Period</u>
Multi-Asset Fund	\$ 4,075,184	Daily	-	None

Description of Level 2 Investments

Multi-Asset Fund - The Multi-Asset Fund is an investment vehicle under the TIFF Investment Program, Inc. ("TIP"). TIP is a no-load, open-end management investment company that seeks to improve the net investment returns of its members. The Multi-Asset Fund is available primarily to foundations, endowments, other 501(c)(3) organizations, and certain other non-profit organizations that meet TIP's eligibility requirements. The fund's investment objective is to attain a growing stream of current income and appreciation of principal that at least offset inflation.

Investments by fund are as follows:

General fund	\$ 2,122,700
Temporarily restricted - endowment	23,819
Permanently restricted endowment	<u>2,000,000</u>
	<u>\$ 4,146,519</u>

Investment income (loss) consists of:

Interest and dividends	\$ 224,022
Net loss on investments	<u>(33,462)</u>
Investment income	<u>\$ 190,560</u>

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable have been recorded at present value using a discount rate of 4.25%. The receivables are due as follows:

2017	\$ 4,741,202
2018	<u>200,171</u>
	4,941,373
Less discount to present value	<u>(8,160)</u>
Present value of contributions receivable	<u>\$ 4,933,213</u>

NOTE 5 - BENEFICIAL INTEREST IN LEAD TRUST

CHF is the beneficiary of a charitable lead annuity trust. Pursuant to the terms of the agreement, CHF is to receive \$40,000 annually through 2016 and \$6,667 in 2017. This is based on an annuity amount equal to 4% of the initial fair market value of the trust assets as of the date of the annuity trust agreement. Any payment in satisfaction of the annuity amount shall be from income and, to the extent that income is not sufficient, from principal. Any income of the trust in excess of the annuity amount shall be added to principal. The present value of these cash flows at December 31, 2016 discounted at 5% is \$6,350.

NOTE 6 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Mobile medical units	\$ 4,949,322	10 years
Computers and equipment	585,765	3-5 years
Furniture	36,080	5 years
Leasehold improvements	<u>2,393,926</u>	3-5 years
	7,965,093	
Accumulated depreciation and amortization	<u>(6,484,052)</u>	
	<u>\$ 1,481,041</u>	

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - LINE OF CREDIT

CHF has a \$1,000,000 working capital line of credit available from Citibank, N.A. that is collateralized by the assets of CHF. Interest is computed at the prime rate, which was 3.75% at December 31, 2016. The line of credit does not have a set expiration date. The balance outstanding as of December 31, 2016 was \$0. Interest expense for the year ended December 31, 2016 was \$21,809.

NOTE 8 - GRANTS PAYABLE

Grants payable have been recorded at present value using a discount rate of 4.25%. The payables are due as follows:

2017	\$ 5,435,320
2018	<u>758,489</u>
	6,193,809
Less discount to present value	<u>(30,922)</u>
Present value of grants payable	<u>\$ 6,162,887</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

New York programs	\$ 2,403,044
Unspent endowment fund earnings	<u>23,819</u>
Total	<u>\$ 2,426,863</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

New York programs	\$ 2,667,474
National programs	2,240,762
Appropriations of endowment fund earnings	<u>60,000</u>
	<u>\$ 4,968,236</u>

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 10 - ENDOWMENT FUNDS

General

Permanently restricted net assets consist of a single endowment of \$2,000,000 which is restricted to investment in perpetuity, the income from which is expendable to support any activity of CHF. As required by accounting principles generally accepted in the United States of America, net assets associated with permanently restricted funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of CHF adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA permits charities to apply a spending policy to endowments based on certain specified standards of prudence. CHF is governed by the NYPMIFA spending policy, which establishes a maximum spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, CHF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective is to maintain the principal endowment fund at the original amount designated by the donor and to generate investment income for the specified purpose. The investment policy to achieve this objective is to invest in low-risk securities. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. Towards the end of each year, the Board meets to decide how much income to release for the following year.

Funds with Deficiencies

CHF does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

Endowment net assets consist of \$2,000,000 of a permanently restricted endowment and \$23,819 of unappropriated earnings thereon which are temporarily restricted.

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 10 - ENDOWMENT FUNDS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2016

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 2,000,000	\$ 2,000,000
Interest and dividends	\$ 99,688		99,688
Net loss on investments	(15,869)		(15,869)
Appropriations	<u>(60,000)</u>		<u>(60,000)</u>
Endowment net assets, end of year	<u>\$ 23,819</u>	<u>\$ 2,000,000</u>	<u>\$ 2,023,819</u>

NOTE 11 - LEASE COMMITMENTS

CHF is a sublessee of Columbia University for office space at 125th Street in New York. The lease expires on May 31, 2018. Future minimum payments are as follows:

2017	\$ 295,470
2018	<u>124,501</u>
	<u>\$ 419,971</u>

Rent expense for the year relating to this lease was \$362,264.

Additionally, CHF is a lessee for space in the Bronx, N.Y. utilized by the New York program operated by Montefiore Medical Center. The lease expires on October 31, 2019. Future minimum payments are as follows:

2017	\$ 413,245
2018	413,245
2019	<u>344,371</u>
	<u>\$ 1,170,861</u>

For the year ended December 31, 2016, payments of \$405,374 for this lease are included in contributions and grants for the New York program on the statement of functional expenses.

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THE CHILDREN'S HEALTH FUND
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NOTE 12 - PENSION

CHF has a defined contribution pension plan. The pension plan consists of a 403(b) tax-sheltered annuity plan. All employees at least 21 years of age working over 1,000 hours per year are qualified to participate in this plan after one year of service. The employer contributes 5% of employees' gross salaries (exclusive of bonuses) to the plan. Benefits are vested 40% after one year of employment, and 100% after two years of employment for the employer's portion of the contribution. Nonvested employer discretionary contributions which are forfeited as a result of the termination of an active employee are used to reduce future employer contributions. Pension expense was \$122,576 for 2016.

NOTE 13 - RELATED-PARTY TRANSACTIONS

CHF retains a public relations and marketing firm, of which a member of the CHF Board of Directors serves as the firm's President. In 2016, CHF made payments of \$21,985 to the firm.

CHF retains a travel consultant, of which a member of the CHF Board of Directors serves as the firm's Chairman and CEO. In 2016, CHF made payments of \$31,300 to the firm.

NOTE 14 - CONCENTRATIONS

Financial instruments which potentially subject CHF to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

In 2016, the highest six donors accounted for approximately 55% of total revenues and the highest six receivables accounted for approximately 75% of receivables.