

THE CHILDREN'S HEALTH FUND

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2013

THE CHILDREN'S HEALTH FUND

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Statement of Financial Position

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements



Independent Auditor's Report

**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, 2013, 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, 2013, 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, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

June 13, 2014

THE CHILDREN'S HEALTH FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013
(With Summarized Financial Information
for December 31, 2012)

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,723,127	\$ 936,278
Investments - allocated (Note 3)	4,939,940	4,377,397
Government grants receivable	71,464	
Contributions receivable (Note 7)	3,837,057	6,052,769
Beneficial interest in lead trust (Note 13)	40,000	40,000
Prepaid expenses and deposits	201,624	139,442
Total current assets	<u>11,813,212</u>	<u>11,545,886</u>
Investments - allocated (Note 3)	2,000,000	2,000,000
Contributions receivable - long term (Note 7)	1,135,542	3,729,864
Beneficial interest in lead trust (Note 13)	80,136	114,415
Fixed assets - net (Note 4)	1,999,529	2,384,854
Total assets	<u>\$ 17,028,419</u>	<u>\$ 19,775,019</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 333,583	\$ 442,640
Grants payable (Note 8)	6,226,888	5,559,447
Total current liabilities	<u>6,560,471</u>	<u>6,002,087</u>
Grants payable - long term (Note 8)	3,129,157	4,363,618
Total liabilities	<u>9,689,628</u>	<u>10,365,705</u>
Net assets (Exhibit B)		
Unrestricted		
General	94,122	1,031,367
Board designated - endowment (Note 6)	4,835,589	4,261,832
Total unrestricted net assets	<u>4,929,711</u>	<u>5,293,199</u>
Temporarily restricted (Note 5)	409,080	2,116,115
Permanently restricted (Note 6)	2,000,000	2,000,000
Total net assets	<u>7,338,791</u>	<u>9,409,314</u>
Total liabilities and net assets	<u>\$ 17,028,419</u>	<u>\$ 19,775,019</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, 2013
 (With Summarized Financial Information
 for the Year Ended December 31, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2013	2013	2012	2012
Revenues, gains, losses and other support				
Contributions and grants				
Foundations	\$ 1,878,335	\$ 2,017,606	\$ 3,736,230	\$ 3,736,230
Corporations	700,359	2,775,805	9,059,638	9,059,638
Individuals	1,564,190	459,919	1,633,233	1,633,233
Government grants	71,464		71,464	71,464
Special events revenues				
Costs of direct benefits to donors	\$ 1,340,275			
Net special events revenues	(468,005)			
Change in value of beneficial interest in lead trust	872,270		2,031,849	2,031,849
Investment income (Note 3)	5,721	256,192	7,353	7,353
Loss on sale of donated artworks	625,170		794,841	794,841
Net assets released from restrictions			(68,140)	(68,140)
Satisfaction of program restrictions (Note 5)	7,216,557	(7,216,557)		
Total revenues, gains, losses and other support	12,934,066	(1,707,035)	11,227,031	17,195,004
Expenses (Exhibit C)				
Program services				
Children's health care	3,051,325		3,051,325	4,630,935
New York program	350,076		350,076	1,668,469
Public health and crisis response	5,697,151		5,697,151	6,122,900
National programs	1,732,371		1,732,371	1,613,433
Education				
Total program services	10,830,923		10,830,923	14,035,737

-continued-

THE CHILDREN'S HEALTH FUND

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013
(With Summarized Financial Information
for the Year Ended December 31, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013</u>	<u>2012</u>
Expenses (Exhibit C) (continued)					
Supporting services	\$ 1,089,659			\$ 1,089,659	\$ 1,104,582
Management and general	1,376,972			1,376,972	1,576,007
Fund raising	2,466,631			2,466,631	2,680,589
Total supporting services	<u>13,297,554</u>			<u>13,297,554</u>	<u>16,716,326</u>
Total expenses	(363,488)	\$ (1,707,035)		(2,070,523)	478,678
Change in net assets (Exhibit D)					
Net assets - beginning of year	<u>5,293,199</u>	<u>2,116,115</u>	<u>\$ 2,000,000</u>	<u>9,409,314</u>	<u>8,930,636</u>
Net assets - end of year (Exhibit A)	<u>\$ 4,929,711</u>	<u>\$ 409,080</u>	<u>\$ 2,000,000</u>	<u>\$ 7,338,791</u>	<u>\$ 9,409,314</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013
(With Summarized Financial Information
for the Year Ended December 31, 2012)

	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	Total	2013	2012
Salaries	\$ 579,341	\$ 32,819	\$ 1,197,862	\$ 884,935	\$ 2,694,957	\$ 525,375	\$ 613,895	\$ 1,139,270	\$ 3,834,227	\$ 3,825,617
Payroll taxes and employee benefits	125,416	5,240	312,547	219,367	662,570	152,819	182,159	334,978	997,548	994,091
Total salaries and related expenses	704,757	38,059	1,510,409	1,104,302	3,357,527	678,194	796,054	1,474,248	4,831,775	4,819,708
Contributions and grants	1,970,737	296,321	2,993,430		5,260,488				5,260,488	8,649,829
Professional fees	1,960		313,875	261,899	577,734	106,741	245,864	352,605	930,339	604,667
Occupancy (Note 9)	36,039	2,874	106,552	71,105	216,570	45,909	76,614	122,523	339,093	331,993
Travel and conferences	12,470	1,264	285,128	48,290	347,152	10,866	24,594	35,460	382,612	367,686
Office supplies and expenses	18,421	10,830	70,779	44,078	144,108	107,074	80,773	187,847	331,955	342,615
Dues and subscriptions	1,152	19	9,907	14,661	25,739	4,782	17,575	22,357	48,096	65,150
Postage and shipping	2,374	57	15,285	2,447	20,163	152	11,750	11,902	32,065	33,256
Printing, advertising and website	5,113	46	24,307	138,103	167,569	44,960	78,572	123,532	291,101	287,650
Maintenance and lease of equipment	3,580	9	56,522	22,650	82,761	4,603	2,839	7,442	90,203	52,875
Insurance	6,492	597	43,675	23,432	74,196	23,438	33,492	56,930	131,126	110,489
Hotel, catering and entertainment							468,005	468,005	468,005	761,690
Depreciation and amortization	288,230		267,282	1,404	556,916	57,122	8,845	65,967	622,883	1,050,408
Interest						5,818		5,818	5,818	
Total expenses	3,051,325	350,076	5,697,151	1,732,371	10,830,923	1,089,659	1,844,977	2,934,636	13,765,559	17,478,016
Less costs of direct benefits to donors							(468,005)	(468,005)	(468,005)	(761,690)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 3,051,325	\$ 350,076	\$ 5,697,151	\$ 1,732,371	\$ 10,830,923	\$ 1,089,659	\$ 1,376,972	\$ 2,466,631	\$ 13,297,554	\$ 16,716,326

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (2,070,523)	\$ 478,678
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Net gain on investments	(185,613)	(490,146)
Depreciation and amortization	622,883	1,050,408
Change in value of beneficial interest in lead trust	(5,721)	(7,353)
Loss on sale of donated artworks		68,140
Decrease (increase) in assets		
Government grants receivable	(71,464)	
Contributions receivable	4,810,034	(3,411,276)
Prepaid expenses and deposits	(62,182)	13,597
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(109,057)	230,180
Grants payable	(567,020)	(132,615)
Net cash provided (used) by operating activities	<u>2,361,337</u>	<u>(2,200,387)</u>
Cash flows from investing activities		
Purchase of investments	(756,890)	(2,822,068)
Proceeds from sale of investments	379,960	3,131,028
Purchase of fixed assets	(237,558)	(414,317)
Proceeds from sale of donated artworks		4,960
Net cash used by investing activities	<u>(614,488)</u>	<u>(100,397)</u>
Cash flows from financing activities		
Proceeds from distributions from beneficial interest in lead trust	40,000	40,000
Proceeds from line of credit	750,000	
Principal payments on line of credit	(750,000)	
Net cash provided by financing activities	<u>40,000</u>	<u>40,000</u>
Net change in cash and cash equivalents	1,786,849	(2,260,784)
Cash and cash equivalents - beginning of year	<u>936,278</u>	<u>3,197,062</u>
Cash and cash equivalents - end of year	<u>\$ 2,723,127</u>	<u>\$ 936,278</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 5,818</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, 2013

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 and cash equivalents - CHF considers all highly liquid financial instruments with maturities, when acquired, of three months or less at the date of purchase to be cash equivalents.

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.

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013 as compared to 2012.

- *Money market funds and corporate stocks* - Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds - 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 net asset value ("NAV") of shares held at year end as determined by the mutual fund's manager.

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013 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.

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 - CHF has determined that no allowance for uncollectible accounts for contributions is necessary as of December 31, 2013. 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.

Beneficial interest - The beneficial interest in lead trust is recorded at CHF's share of fair market value of the underlying asset.

Prepaid expenses - Payments made to vendors for contracts that cover future periods are recorded as prepaid expenses.

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.

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 those funds whose principal may not be expended.

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.

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.

Rent expense - CHF leases space at various locations. All leases are operating leases. Rent expense is recognized on the first day of each month for the current month's rent. All leases are reflected on the straight-line basis. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized financial information for 2012 - 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, 2012, 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, 2010 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 13, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments consist of:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 55,511		\$ 55,511
Corporate stocks	25,486		25,486
Mutual funds			
U.S. Treasury fund	23,354		23,354
TIFF multi-asset fund		<u>\$ 6,835,589</u>	<u>6,835,589</u>
	<u>\$ 104,351</u>	<u>\$ 6,835,589</u>	<u>\$ 6,939,940</u>

A summary of changes in Level 3 investments is as follows:

Balance, beginning of year	\$ 6,261,483
Total gains or losses (realized and unrealized) included in changes in net assets for 2013	182,641
Purchases	692,973
Sales	<u>(301,508)</u>
	<u>\$ 6,835,589</u>

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 - INVESTMENTS (continued)

The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date

\$ 205,604

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Unfunded Commitments</u>	<u>Redemption Notice Period</u>
Multi-Asset Fund	\$ 6,835,589	Daily	-	N/A

Description of Level 3 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	\$ 104,351
Board designated endowment	4,835,589
Permanently restricted endowment	<u>2,000,000</u>
	<u>\$ 6,939,940</u>

Investments income consists of:

Interest and dividends	\$ 695,749
Net gain on investments	<u>185,613</u>
Investment income	<u>\$ 881,362</u>

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Mobile medical units	\$ 4,467,292	10 years
Computers and equipment	619,026	3-5 years
Furniture	49,507	5 years
Leasehold improvements	<u>2,448,094</u>	3-5 years
	7,583,919	
Accumulated depreciation and amortization	<u>(5,584,390)</u>	
	<u>\$ 1,999,529</u>	

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

New York programs	\$ <u>409,080</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	\$ 4,242,357
National programs	2,897,277
Public health and crisis response	<u>76,923</u>
	<u>\$ 7,216,557</u>

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 6 - ENDOWMENT FUNDS

General

Permanently restricted net assets of \$2,000,000 are for 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 has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. CHF is now 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 funds 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 earnings in relation to the endowment funds are allocated to unrestricted and temporarily restricted income according to the proportion of the principal balance in the underlying funds.

Funds with Deficiencies

CHF does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2013

Endowment net assets consist of \$2,000,000 of permanently donor-restricted funds and \$4,835,589 of board-designated endowment.

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 6 - ENDOWMENT FUNDS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2013

	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,261,832		\$ 2,000,000	\$ 6,261,832
Investment gain	617,565	\$ 256,192		873,757
Appropriation for expenditure	256,192	(256,192)		
Transfers to unrestricted	<u>(300,000)</u>			<u>(300,000)</u>
Endowment net assets, end of year	<u>\$ 4,835,589</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ 6,835,589</u>

NOTE 7 - CONTRIBUTIONS RECEIVABLE

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

2014	\$ 3,837,057
2015	1,161,250
2016	12,000
2017	<u>12,000</u>
	5,022,307
Less discount to present value	<u>(49,708)</u>
Present value of contributions receivable	<u>\$ 4,972,599</u>

-continued-

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 - GRANTS PAYABLE

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

2014	\$ 6,226,888
2015	2,231,609
2016	500,000
2017	500,000
2018	<u>102,941</u>
	9,561,438
Less discount to present value	<u>(205,393)</u>
Present value of grants payable	<u>\$ 9,356,045</u>

NOTE 9 - LEASE COMMITMENT

CHF is a sublessee of Columbia University for office space at 125th Street in New York. The lease expired May 31, 2014, with an option to renew for an additional four years. In May 2014, the lease was renewed through May 31, 2018. Future minimum payments are as follows:

2014	\$ 272,375
2015	279,865
2016	287,562
2017	295,470
2018	124,501

Rent expense for the year relating to this lease was \$339,093.

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

2014	\$ 360,114
2015	389,631
2016	405,374
2017	413,245
2018	413,245
Thereafter	344,371

In 2013, the payments of \$354,210 for this lease are included in contributions and grants for the New York program on the statement of functional expenses.

-continued-

THE CHILDREN'S HEALTH FUND**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2013****NOTE 10 - PENSION**

CHF has a defined contribution pension plan. The pension plan consists of a group 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 \$121,811 for 2013.

NOTE 11 - 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 2013, the highest seven donors accounted for approximately 50% of total revenues.

NOTE 12 - 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 2013, CHF made payments of \$18,515 to the firm.

NOTE 13 - 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, 2013 discounted at 5% is \$120,136.

NOTE 14 - LINE OF CREDIT

CHF has a working capital line of credit collateralized by the assets of CHF for \$1,000,000 from Citibank, N.A. Interest is computed at the prime rate, which was 3.25% at December 31, 2013. There was no balance outstanding as of December 31, 2013.