

THE CHILDREN'S HEALTH FUND

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2014

THE CHILDREN'S HEALTH FUND

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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, 2014, 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.

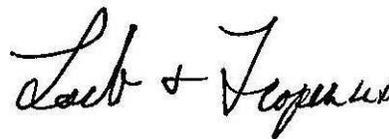
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014, 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, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 13, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.



June 23, 2015

THE CHILDREN'S HEALTH FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014
(With Summarized Financial Information
for December 31, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 666,750	\$ 2,723,127
Investments - allocated (Note 3)	4,596,582	4,939,940
Government grants receivable	273,848	71,464
Contributions receivable (Note 7)	3,752,688	3,837,057
Beneficial interest in lead trust (Note 13)	40,000	40,000
Prepaid expenses and deposits	265,399	201,624
Total current assets	<u>9,595,267</u>	<u>11,813,212</u>
Investments - allocated (Note 3)	2,000,000	2,000,000
Contributions receivable - long term (Note 7)	1,258,833	1,135,542
Beneficial interest in lead trust (Note 13)	44,142	80,136
Fixed assets - net (Note 4)	<u>1,701,528</u>	<u>1,999,529</u>
Total assets	<u>\$ 14,599,770</u>	<u>\$ 17,028,419</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 388,104	\$ 333,583
Grants payable (Note 8)	<u>5,474,832</u>	<u>6,226,888</u>
Total current liabilities	5,862,936	6,560,471
Grants payable - long term (Note 8)	<u>2,423,673</u>	<u>3,129,157</u>
Total liabilities	<u>8,286,609</u>	<u>9,689,628</u>
Net assets (Exhibit B)		
Unrestricted	2,763,823	4,929,711
Temporarily restricted (Note 5)	1,549,338	409,080
Permanently restricted (Note 6)	<u>2,000,000</u>	<u>2,000,000</u>
Total net assets	<u>6,313,161</u>	<u>7,338,791</u>
Total liabilities and net assets	<u>\$ 14,599,770</u>	<u>\$ 17,028,419</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, 2014
(With Summarized Financial Information
for the Year Ended December 31, 2013)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
Revenues, gains, losses and other support					
Contributions and grants					
Foundations	\$ 453,377	\$ 1,630,928		\$ 2,084,305	\$ 3,895,941
Corporations	4,543,380	3,633,519		8,176,899	3,476,164
Individuals	923,522	296,494		1,220,016	2,024,109
Government grants	222,294			222,294	71,464
Special events revenues	\$ 1,667,391				
Costs of direct benefits to donors	<u>(538,605)</u>				
Net special events revenues	1,128,786			1,128,786	872,270
Change in value of beneficial interest in lead trust	4,006			4,006	5,721
Investment income (Note 3)	47,913	19,972		67,885	881,362
Net assets released from restrictions					
Satisfaction of program restrictions (Note 5)	<u>4,440,655</u>	<u>(4,440,655)</u>			
 Total revenues, gains, losses and other support	 <u>11,763,933</u>	 <u>1,140,258</u>		 <u>12,904,191</u>	 <u>11,227,031</u>
Expenses (Exhibit C)					
Program services					
Children's health care					
New York program	2,827,514			2,827,514	3,051,325
Public health and crisis response	631,059			631,059	350,076
National programs	5,776,775			5,776,775	5,697,151
Education	<u>1,442,548</u>			<u>1,442,548</u>	<u>1,732,371</u>
 Total program services	 <u>10,677,896</u>			 <u>10,677,896</u>	 <u>10,830,923</u>

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THE CHILDREN'S HEALTH FUND

EXHIBIT B

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STATEMENT OF ACTIVITIES

**YEAR ENDED DECEMBER 31, 2014
(With Summarized Financial Information
for the Year Ended December 31, 2013)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
Expenses (Exhibit C) (continued)					
Supporting services					
Management and general	\$ 1,557,362			\$ 1,557,362	\$ 1,089,659
Fund raising	<u>1,694,563</u>			<u>1,694,563</u>	<u>1,376,972</u>
Total supporting services	<u>3,251,925</u>			<u>3,251,925</u>	<u>2,466,631</u>
Total expenses	<u>13,929,821</u>			<u>13,929,821</u>	<u>13,297,554</u>
Change in net assets (Exhibit D)	(2,165,888)	\$ 1,140,258		(1,025,630)	(2,070,523)
Net assets - beginning of year	<u>4,929,711</u>	<u>409,080</u>	\$ 2,000,000	<u>7,338,791</u>	<u>9,409,314</u>
Net assets - end of year (Exhibit A)	<u><u>\$ 2,763,823</u></u>	<u><u>\$ 1,549,338</u></u>	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 6,313,161</u></u>	<u><u>\$ 7,338,791</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE CHILDREN'S HEALTH FUND

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014
(With Summarized Financial Information
for the Year Ended December 31, 2013)

	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	2014	2013
Salaries	\$ 643,412	\$ 14,319	\$ 1,109,167	\$ 793,347	\$ 2,560,245	\$ 800,721	\$ 773,319	\$ 1,574,040	\$ 4,134,285	\$ 3,834,227
Payroll taxes and employee benefits	126,973	5,449	306,287	217,574	656,283	197,674	223,268	420,942	1,077,225	997,548
Total salaries and related expenses	770,385	19,768	1,415,454	1,010,921	3,216,528	998,395	996,587	1,994,982	5,211,510	4,831,775
Contributions and grants	1,880,498	601,877	2,876,342		5,358,717				5,358,717	5,260,488
Professional fees	6,980		381,099	141,963	530,042	118,553	381,986	500,539	1,030,581	930,339
Occupancy (Note 9)	38,555	1,198	92,621	66,849	199,223	63,752	83,684	147,436	346,659	339,093
Travel and conferences	11,571	294	237,517	54,039	303,421	16,118	28,374	44,492	347,913	382,612
Office supplies and expenses	25,063	7,446	97,014	43,263	172,786	132,854	59,082	191,936	364,722	331,955
Dues and subscriptions	619		10,384	15,235	26,238	5,587	12,488	18,075	44,313	48,096
Postage and shipping	1,656		9,202	2,630	13,488	3,884	13,579	17,463	30,951	32,065
Printing, advertising and website	5,501		32,645	75,109	113,255	40,649	88,034	128,683	241,938	291,101
Maintenance and lease of equipment	2,767		280,514	4,759	288,040	12,418	4,228	16,646	304,686	90,203
Insurance	29,663	476	36,777	26,544	93,460	19,222	24,922	44,144	137,604	131,126
Venue, catering and entertainment							538,605	538,605	538,605	468,005
Depreciation and amortization	54,256		307,206	1,236	362,698	45,930	1,599	47,529	410,227	622,883
Bad debt						100,000		100,000	100,000	
Interest										5,818
Total expenses	2,827,514	631,059	5,776,775	1,442,548	10,677,896	1,557,362	2,233,168	3,790,530	14,468,426	13,765,559
Less costs of direct benefits to donors							(538,605)	(538,605)	(538,605)	(468,005)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,827,514	\$ 631,059	\$ 5,776,775	\$ 1,442,548	\$ 10,677,896	\$ 1,557,362	\$ 1,694,563	\$ 3,251,925	\$ 13,929,821	\$ 13,297,554

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (1,025,630)	\$ (2,070,523)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Net loss (gain) on investments	402,274	(185,613)
Depreciation and amortization	410,227	622,883
Change in value of beneficial interest in lead trust	(4,006)	(5,721)
Decrease (increase) in assets		
Government grants receivable	(202,384)	(71,464)
Contributions receivable	(38,922)	4,810,034
Prepaid expenses and deposits	(63,775)	(62,182)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	54,521	(109,057)
Grants payable	<u>(1,457,540)</u>	<u>(567,020)</u>
Net cash provided (used) by operating activities	<u>(1,925,235)</u>	<u>2,361,337</u>
Cash flows from investing activities		
Purchase of investments	(123,610)	(756,890)
Proceeds from sale of investments	64,694	379,960
Purchase of fixed assets	<u>(112,226)</u>	<u>(237,558)</u>
Net cash used by investing activities	<u>(171,142)</u>	<u>(614,488)</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		<u>(750,000)</u>
Net cash provided by financing activities	<u>40,000</u>	<u>40,000</u>
Net change in cash and cash equivalents	(2,056,377)	1,786,849
Cash and cash equivalents - beginning of year	<u>2,723,127</u>	<u>936,278</u>
Cash and cash equivalents - end of year	<u>\$ 666,750</u>	<u>\$ 2,723,127</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, 2014

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.

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014 as compared to 2013.

- ***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.

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014 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 - 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.

Beneficial interest - The beneficial interest in lead trust is recorded at CHF's share of the 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.

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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.

Grants - Grants 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.

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.

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized financial information for 2013- 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, 2013, 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, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 23, 2015, 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	\$ 20,868		\$ 20,868
Corporate stocks	22,966		22,966
Mutual funds			
U.S. Treasury fund	23,307		23,307
TIFF multi-asset fund	<u> </u>	\$ <u>6,529,441</u>	<u>6,529,441</u>
	<u>\$ <u>67,141</u></u>	<u>\$ <u>6,529,441</u></u>	<u>\$ <u>6,596,582</u></u>

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

Balance, beginning of year	\$ 6,835,589
Total gains or losses (realized and unrealized) included in changes in net assets for 2014	(399,678)
Purchases	<u>93,530</u>
	<u>\$ <u>6,529,441</u></u>

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

\$ (399,678)

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 3 - INVESTMENTS (continued)

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Unfunded Commitments</u>	<u>Redemption Notice Period</u>
Multi-Asset Fund	\$ 6,529,441	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	\$ 4,596,582
Permanently restricted endowment	<u>2,000,000</u>
	<u>\$ 6,596,582</u>

Investments income consists of:

Interest and dividends	\$ 470,159
Net loss on investments	<u>(402,274)</u>
Investment income	<u>\$ 67,885</u>

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Mobile medical units	\$ 4,467,292	10 years
Computers and equipment	724,902	3-5 years
Furniture	55,857	5 years
Leasehold improvements	<u>2,448,094</u>	3-5 years
	7,696,145	
Accumulated depreciation and amortization	<u>(5,994,617)</u>	
	<u>\$ 1,701,528</u>	

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

New York programs	\$ <u>1,549,338</u>
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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	\$ 1,900,470
National programs	2,491,635
Public health and crisis response	<u>48,550</u>
	<u>\$ 4,440,655</u>

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 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 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, 2014

Endowment net assets consist of \$2,000,000 of permanently donor-restricted funds.

THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 6 - ENDOWMENT FUNDS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2014

	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,835,589		\$ 2,000,000	\$ 6,835,589
Interest and dividends	322,485	\$ 142,395		464,880
Net loss on investments	(277,255)	(122,423)		(399,678)
Appropriation for expenditure	19,972	(19,972)		
Transfers to unrestricted	<u>(4,900,791)</u>	_____	_____	<u>(4,900,791)</u>
Endowment net assets, end of year	\$ <u> -</u>	\$ <u> -</u>	\$ <u>2,000,000</u>	\$ <u>2,000,000</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:

2015	\$ 3,852,688
2016	1,090,763
2017	135,064
2018	<u>100,000</u>
	5,178,515
Less allowance for doubtful accounts	(100,000)
Less discount to present value	<u>(66,994)</u>
Present value of contributions receivable	\$ <u>5,011,521</u>

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THE CHILDREN'S HEALTH FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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:

2015	\$ 5,474,832
2016	1,786,751
2017	648,650
2018	<u>127,941</u>
	8,038,174
Less discount to present value	<u>(139,669)</u>
Present value of grants payable	<u>\$ 7,898,505</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:

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

Rent expense for the year relating to this lease was \$346,659.

Additionally, CHF is a lessee 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:

2015	\$ 389,631
2016	405,374
2017	413,245
2018	413,245
2019	344,371

In 2014, the payments of \$360,114 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
NOTES TO FINANCIAL STATEMENTS
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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 \$136,885 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 2014, the highest five donors accounted for approximately 54% 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 2014, CHF made payments of \$39,663 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, 2014 discounted at 5% is \$84,142.

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, 2014. There was no balance outstanding as of December 31, 2014.

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THE CHILDREN'S HEALTH FUND
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NOTE 15 - CONTINGENCY

CHF faces the risk of possible litigation from a party with whom it interacts during the normal course of its operations. Management believes it carries adequate insurance, and accordingly, no loss provision has been recorded in these financial statements.