

COMMUNITY HEALTH CHARITIES

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2017

And Report of Independent Auditor

COMMUNITY HEALTH CHARITIES

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Report of Independent Auditor

The Board of Directors
Community Health Charities
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Community Health Charities (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, 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 Organization as of June 30, 2017, 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.

Adjustment to beginning net assets

As disclosed in Note 7 to the financial statements, the Organization restated its net assets as of July 1, 2016 to reflect a change in the accounting for the revenue that they receive for the processing of charitable contributions. Our opinion is not modified with respect to this matter.



Bethesda, Maryland
June 12, 2018

COMMUNITY HEALTH CHARITIES
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

ASSETS

Cash and cash equivalents	\$ 8,906,999
Investments	1,852,112
Due from state affiliates and other receivables	828,994
Pledges receivable, net of allowance for uncollectible pledges of \$5,130,840	25,905,134
Prepaid expenses	147,702
Property and equipment, net of accumulated depreciation of \$476,142	26,825
Deposits	<u>38,405</u>
Total Assets	<u><u>\$ 37,706,171</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 1,425,594
Campaign funds payable	<u>30,835,713</u>
Total Liabilities	<u>32,261,307</u>

Net Assets:

Unrestricted	<u>5,444,864</u>
Total Net Assets	<u>5,444,864</u>
Total Liabilities and Net Assets	<u><u>\$ 37,706,171</u></u>

COMMUNITY HEALTH CHARITIES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017

Administrative fee on amounts raised in campaigns	\$ 7,255,714
Other Public Support and Revenue:	
Affiliated organization fees	217,991
Application fees	498,830
Contributions	863,715
Investment income	117,141
Other revenue	<u>98,503</u>
Total Public Support and Revenue	<u>9,051,894</u>
Expenses:	
Program services	7,464,243
Supporting Services:	
Management and general	1,476,064
Fundraising	<u>304,838</u>
Total Supporting Services	<u>1,780,902</u>
Total Expenses	<u>9,245,145</u>
Change in net assets	(193,251)
Net assets, beginning of year	9,247,037
Adjustment to beginning net assets	<u>(3,608,922)</u>
Net assets, beginning of year as restated	<u>5,638,115</u>
Net assets, end of year	<u>\$ 5,444,864</u>

COMMUNITY HEALTH CHARITIES

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:

Change in net assets	\$ (193,251)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:	
Adjustment to beginning net assets	(3,608,922)
Depreciation	21,835
Realized and unrealized gains on investments	(59,006)
Decrease (increase) in operating assets:	
Due from state affiliates and other receivables	361,308
Prepaid expenses	45,930
Deposits	3,754
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(1,944,105)
Campaign funds payable	<u>4,226,258</u>
Net cash flows from operating activities	<u>(1,146,199)</u>

Cash flows from investing activities:

Purchases of property and equipment	(9,085)
Purchases of investments	<u>(52,355)</u>
Net cash flows from investing activities	<u>(61,440)</u>

Net decrease in cash and cash equivalents	(1,207,639)
Cash and cash equivalents, beginning of year	<u>10,114,638</u>
Cash and cash equivalents, end of year	<u>\$ 8,906,999</u>

The accompanying notes to the financial statements are an integral part of this statement.

COMMUNITY HEALTH CHARITIES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—Summary of significant accounting policies

Nature of Operations – Community Health Charities (the “Organization”), through its participation in the Combined Federal Campaign and certain corporate campaigns, serves as a vehicle through which federal (domestic and overseas) employees and employees in the private sector may make contributions to the Organization’s charity partners and their local chapters, which are not-for-profit charitable organizations performing medical research, providing community and patient services, and materials and programs for public and professional education in the health field. The Organization conducts business nationwide through a network of affiliated Community Health Charities’ local affiliates. Amounts raised in unaffiliated states are distributed directly to designated charitable organizations based on campaign designation reports.

Basis of Presentation – The Organization’s financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Organization presents information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted Net Assets – All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board’s discretion.

Temporarily Restricted Net Assets – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted Net Assets – Resources accumulated through donations or grants that are subject to a restriction. These net assets include the original value of the gift, plus any subsequent additions.

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. Significant estimates include allowances for uncollectible pledges and shrinkage.

Cash and Cash Equivalents – Cash and cash equivalents consist of operating, payroll, and money market accounts and certificates of deposit with a maturity of three months or less.

Total cash at June 30, 2017 included in the statement of financial position includes the following:

Cash and cash equivalents	\$ 2,482,368
Cash held for charity partners	<u>6,424,631</u>
Total cash	<u><u>\$ 8,906,999</u></u>

Property and Equipment – Furniture and equipment with unit values in excess of \$1,000 are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Cost and related accumulated depreciation are removed from the accounts when the assets are disposed of, with any gain or loss recognized currently. Repairs and maintenance are charged to expense when incurred.

COMMUNITY HEALTH CHARITIES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—Summary of significant accounting policies (continued)

Campaign Funds Payable – Campaign funds payable include funds not distributed as of year-end for donor pledges that are undesignated or designated to the Organization or charity partners. When pledges are received and processed from campaigns, the cash is allocated using the ratio of donor designated funds combined with the pro rata share of undesignated funds to the total cash received.

Distribution Policy – The Policy of the Organization is to distribute, as of the Organization's scheduled distribution dates, all of the receipts from all contributing campaigns, less an agreed upon fee, in accordance with gross designation reports provided by administrators of the various campaigns, to include the Combined Federal Campaign.

Classifications of Net Assets – The Organization's net assets and activities that increase or decrease net assets are classified as unrestricted, temporarily restricted, or permanently restricted. As of June 30, 2017, unrestricted net assets were \$5,444,864, and there were no permanently restricted or temporarily restricted net assets.

Revenue Recognition – Administrative fees from amounts raised in campaigns represent the Organization's fee for processing collections from campaigns that have been passed through to specific member charities based on donor designations for the year ended June 30, 2017. These fees represent board approved costs of raising funds on behalf of others and are recognized when the funds are received and processed for distribution. The campaign percentages vary based on individual agreements. Affiliation fees are based on audited results of amounts raised in workplace campaigns by affiliates using a board approved rate and are recognized annually.

Expenses – Expenses are recognized by the Organization during the period in which they are incurred. Expenses which are paid in advance and not yet incurred are deferred to the applicable period.

Program services consist of costs associated with managing, maintaining, and increasing revenue sources for the Organization's charity partners from existing workplace fundraising campaigns; increasing overall recognition and representation of charity partners; and costs that benefit the overall campaign. Management and general expenses consist of costs directly related to the overall operations of the Organization and maintenance of its corporate existence, including general office management, reception, and financial reporting. Fundraising includes those costs associated with accessing new workplace fundraising campaigns.

Functional Allocation of Expenses – The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Taxes – The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). In addition, the Organization is classified by the Internal Revenue Service ("IRS") under Section 509(a)(1) as an organization that is not a private foundation and is required to report unrelated business income to the IRS and the State of Virginia taxing authorities. For the year ended June 30, 2017, there was no unrelated business income earned.

Accounting for Uncertainty in Income Taxes – The Organization accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Organization has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Organization has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction. The Organization's federal and state tax returns are generally open for examination for three years following the date filed.

COMMUNITY HEALTH CHARITIES
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—Summary of significant accounting policies (continued)

Subsequent Events – The Organization has evaluated subsequent events through June 12, 2018, which is the date the financial statements were available to be issued.

Note 2—Property and equipment

Property and equipment consisted of the following as of June 30, 2017:

Cost:		
Office/computer equipment	\$	368,269
Software		97,520
Furniture		8,800
Leasehold improvements		28,378
		<u>502,967</u>
Accumulated depreciation		476,142
Net property and equipment	\$	<u><u>26,825</u></u>

Depreciation expense for the year ended June 30, 2017 was \$21,835.

Note 3—Commitments

The Organization has commitments under operating leases for its headquarters office as well as leases still in effect for several of their local affiliates which were acquired in prior years. These leases expire at various dates through October 2027. The Organization also has sublease agreements which expire at various dates through June 2018.

The Organization also leases equipment under an operating lease which has a monthly rent payment of \$346 and expires in April 2020.

Future minimum rental payments, by fiscal year and in the aggregate, under the operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Totals</u>
2018	\$ 227,879	\$ 4,152	\$ 232,031
2019	254,043	4,152	258,195
2020	261,026	3,460	264,486
2021	268,212	-	268,212
2022	275,577	-	275,577
Later Years	1,602,188	-	1,602,188
	<u>2,888,925</u>	<u>11,764</u>	<u>2,900,689</u>
Less noncancellable subleases	<u>(29,274)</u>	<u>-</u>	<u>(29,274)</u>
	<u><u>\$ 2,859,651</u></u>	<u><u>\$ 11,764</u></u>	<u><u>\$ 2,871,415</u></u>

Rent expense for the year ended June 30, 2017 was \$418,192.

COMMUNITY HEALTH CHARITIES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 4—Pension plan

The Organization has a defined contribution plan under Section 403(b) of the IRC covering all employees who have completed at least one year of service. Under the plan, the Organization made discretionary contributions to the plan equal to 6.5% of each eligible employee's salary. Contributions of \$214,214 were made during the year ended June 30, 2017.

Note 5—Concentration of credit risk and financial instruments

Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of short-term investments maintained at creditworthy financial institutions. These account balances, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. Credit risk with respect to pledges receivable is limited because the Organization deals with a significant number of campaigns whose participants are spread over a wide geographical area.

For the year ended June 30, 2017, approximately 11% of the Organization's pledges, and approximately 11% of the Organization's pledges receivable were from the District of Columbia.

Note 6—Investments and fair value measurements

The Organization established 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 the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market 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 inputs into the determination of fair value require significant management judgment or estimation. At this time, the Organization does not hold any investments which would be included in this category.

The asset's 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.

COMMUNITY HEALTH CHARITIES
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 6—Investments and fair value measurements (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although management 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.

	<u>Fair Value</u>	<u>Cost</u>
Corporate bonds	\$ 554,748	\$ 559,531
Mutual funds	753,573	730,096
Equities	232,871	187,495
Certificates of deposit	262,251	261,591
Money market funds	48,669	48,669
	<u>\$ 1,852,112</u>	<u>\$ 1,787,382</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ -	\$ 554,748	\$ -	\$ 554,748
Mutual funds	753,573	-	-	753,573
Equities	232,871	-	-	232,871
Certificates of deposit	262,251	-	-	262,251
Money market funds	48,669	-	-	48,669
	<u>\$ 1,297,364</u>	<u>\$ 554,748</u>	<u>\$ -</u>	<u>\$ 1,852,112</u>

The following table summarizes investment returns as of June 30, 2017:

Interest and dividends	\$ 58,135
Realized gains	2,308
Unrealized gains	56,698
	<u>\$ 117,141</u>

Note 7—Adjustment to beginning net assets

During the year ended June 30, 2017, the Organization changed the revenue recognition of their administrative fee revenue that they receive for the processing of charitable contributions. Previously, these amounts were recognized in the period in which the related campaign pledges were made. In addition, gross contributions pledged by donors and the offsetting gross distributions committed to member charities were previously reported as part of support and revenue on the statement of activities. Pledged contributions not yet collected and distributions not yet paid as of year-end were reported as receivables and payables on the statement of financial position.

COMMUNITY HEALTH CHARITIES
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 7—Adjustment to beginning net assets (continued)

The administrative fee revenue is now recognized as revenue in the period when the funds are received and processed for distribution. Gross contributions pledged by donors and the offsetting gross distributions committed to member charities are no longer reported as part of support and revenue on the statement of activities. Pledged contributions not yet collected and distributions not yet paid as of year-end are no longer reported as receivables and payables on the statement of financial position. However, cash received but not distributed to member charities as of year-end are reported as part of campaign funds payable on the statement of financial position.

The impact of the change resulted in a reduction to the beginning net assets in the amount of \$3,608,922. If applied retrospectively, the change in net assets for the year ended June 30, 2016, which was reported at a negative \$62,523, would have been reduced by \$3,608,922 resulting in an adjusted change in net assets of negative \$3,671,445.

SUPPLEMENTARY INFORMATION

Report of Independent Auditor on Supplementary Information

The Board of Directors
Community Health Charities
Alexandria, Virginia

We have audited the financial statements of Community Health Charities (the "Organization") as of and for the year ended June 30, 2017, and our report thereon dated June 12, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended June 30, 2017, which follows, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Organization's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and other accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Bethesda, Maryland
June 12, 2018

COMMUNITY HEALTH CHARITIES
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fundraising	Total
Personnel Expenses:				
Salaries	\$ 4,454,182	\$ 814,789	\$ 162,958	\$ 5,431,929
Payroll taxes	381,974	69,873	13,975	465,822
Employee benefits	610,329	111,646	22,329	744,304
Total Personnel Expenses	<u>5,446,485</u>	<u>996,308</u>	<u>199,262</u>	<u>6,642,055</u>
Other Expenses:				
Professional fees	585,925	103,398	-	689,323
Temporary services	51,068	9,012	-	60,080
Training	9,293	1,679	220	11,192
Occupancy	313,644	96,184	8,364	418,192
Software	256,777	45,314	-	302,091
Furniture and equipment	71,805	13,135	2,627	87,567
Telephone and internet	73,849	13,509	2,702	90,060
Printing and postage	64,334	11,768	2,354	78,456
Supplies	132,092	24,163	4,833	161,088
Dues and fees	227,337	41,586	8,317	277,240
Insurance	45,547	8,332	1,666	55,545
Travel	76,076	73,839	73,839	223,754
Meetings	80,640	34,560	-	115,200
Advertising	11,467	-	-	11,467
Depreciation	17,905	3,275	655	21,835
Total Other Expenses	<u>2,017,758</u>	<u>479,756</u>	<u>105,576</u>	<u>2,603,090</u>
Total Expenses	<u>\$ 7,464,243</u>	<u>\$ 1,476,064</u>	<u>\$ 304,838</u>	<u>\$ 9,245,145</u>