COMMUNITY HEALTH CHARITIES

FINANCIAL STATEMENTS

Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

COMMUNITY HEALTH CHARITIES

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, 2013, 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.

Auditors' 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 auditors' 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 auditors consider 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 Community Health Charities as of June 30, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization has elected to change its method of accounting for pledges raised, amounts distributed to member charities, and revenues recognized during the year ended June 30, 2013. Our opinion is not modified with respect to that matter.

Mayer Hoffman McCann P.C.

Bethesda, Maryland
January 10, 2014

COMMUNITY HEALTH CHARITIES

STATEMENT OF FINANCIAL POSITION

June 30, 2013

ASSETS

Cash and cash equivalents	$ 6,217,829
Certificates of deposit, short-term	509,292
Due from state affiliates and other receivables	383,041
Pledges receivable, net of allowance for uncollectible pledges of $4,052,430	18,065,943
Prepaid expenses	38,502
Property and equipment, net of accumulated depreciation of $188,779	63,308
TOTAL ASSETS	$ 25,277,915

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable and accrued expenses	$ 219,453
Campaign funds payable	22,296,251
TOTAL LIABILITIES	22,515,704
NET ASSETS	
Unrestricted	2,762,211
TOTAL LIABILITIES AND NET ASSETS	$ 25,277,915

See Notes to Financial Statements

COMMUNITY HEALTH CHARITIES

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2013

	Unrestricted
AMOUNTS RAISED IN CAMPAIGNS	
Combined Federal Campaign	$ 21,422,989
Private Sector Campaign	6,858,565
Total amounts raised in campaigns	28,281,554
Less: shrinkage reserve	(4,052,430)
Less: amounts designated by donor to specific member agencies	(21,920,883)
TOTAL PUBLIC SUPPORT DESIGNATED TO COMMUNITY HEALTH CHARITIES	2,308,241
OTHER PUBLIC SUPPORT AND REVENUE	
Affiliation fees	627,737
Application fees	438,000
Contributions	154,972
Interest income	1,382
Other revenue	949
TOTAL PUBLIC SUPPORT AND REVENUE	3,531,281
EXPENSES	
Program services	2,611,660
Supporting services	
Management and general	557,802
Fundraising	278,122
Total supporting services	835,924
TOTAL EXPENSES	3,447,584
CHANGE IN NET ASSETS	83,697
NET ASSETS, BEGINNING OF YEAR	1,103,277
CHANGE IN ACCOUNTING PRINCIPLE	1,575,237
NET ASSETS, BEGINNING OF YEAR AS RESTATED	2,678,514
NET ASSETS, END OF YEAR	$ 2,762,211

See Notes to Financial Statements

COMMUNITY HEALTH CHARITIES

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	83,697
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation		23,945
Decrease (increase) in operating assets		
Due from state affiliates and other receivables		103,325
Pledges receivable		1,461,256
Prepaid expenses		(1,297)
Deposits		8,806
(Decrease) in operating liabilities		
Accounts payable and accrued expenses		(8,020)
Campaign funds payable		(47,668)
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,624,044
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		(19,698)
(Increase) in investment in certificates of deposit		(1,322)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(21,020)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,603,024
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		4,614,805
CASH AND CASH EQUIVALENTS, END OF YEAR	$	6,217,829

COMMUNITY HEALTH CHARITIES

NOTES TO FINANCIAL STATEMENTS

(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 member charities 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' state 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 – 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.

Change in accounting principle – During the year ended June 30, 2013, the Organization changed its revenue recognition policy related to net public support. Previously, these amounts were recognized when the funds were received and processed for distribution. This revenue is now recognized in the period in which the related campaign pledges are made. Management believes this policy better matches campaign revenue with the related campaign service expenses. The impact of the change in accounting policy resulted in an adjustment to the beginning net assets in the amount of $1,575,237.

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.

(1) Summary of significant accounting policies (continued)

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. Included in cash is a Trust Account established to clearly separate national campaign funds processed for affiliates and designated charities from all other funds of the Organization. The funds in the Trust Account can only be distributed (i) to the designated charities, (ii) as to their respective allocations of shared revenue, to the Affiliates, and (iii) as to its allocation of shared revenue, to the Organization. Except with respect to the portion of the Trust Account which is distributed to the Organization as its allocation of shared revenues, these funds do not belong to, and cannot be used by, the Organization.

Total cash at June 30, 2013 included in the statement of financial position includes the following:

Cash and cash equivalents	$ 209,434
Cash held for affiliates	6,008,395
Total cash	$ 6,217,829

Certificates of deposit, short-term – The Organization holds two certificates of deposit with original maturity dates greater than 90 days. The certificates earn interest at an average rate of approximately .20%. The Organization carries these at cost, which approximates fair value.

Fair value – For cash and short-term investments, receivables and payables, the carrying amount is a reasonable estimate of fair value. Market values for short-term investments are based on quoted prices in active markets for similar assets (Level 2 inputs, under the fair value standards).

Pledges receivable – Pledges are recorded in the financial statements upon receiving pledge information from the campaign. The Organization honors designations made to each member organization. As all pledges are expected to be collected within one year, they are recorded at their net realizable value, which approximates fair value. This is achieved by creating an allowance for estimated uncollectible pledges and for estimated campaign expenses (shrinkage).

Due from state affiliates – Due from state affiliates consists of affiliation fee revenues earned and not yet received. The Organization holds an affiliation agreement with each state affiliate. A board approved affiliation fee is earned on pledge amounts raised in workplace giving campaigns by each state affiliate.

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.

(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 either the Organization or a participating affiliate or member charity. When pledges are received 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, 2013, unrestricted net assets were $2,762,211 and there were no permanently restricted or temporarily restricted net assets.

Revenue recognition – Amounts raised in campaigns primarily represent estimated pledges to be collected from the fall 2012 campaign that have been passed through to specific member charities based on donor designations. Administrative fees, included in public support designated to Community Health Charities, represent board approved costs of raising funds on behalf of others. These fees are recognized when the pledges are made. 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.

Affiliation agreements – A trust or other custodial bank account (the "Trust Account") must be established by the Organization for the benefit of its affiliates and the charities who are the identified recipients of the funds from all national campaigns.

The Organization, on behalf of and as agent for the affiliates, will make the appropriate distributions on funds generated from all national campaigns directly to the designated charities.

Although the funds are comingled in the Trust Account, each affiliate is entitled to an accounting of the amounts in the Trust Account allocated to the affiliate based upon the amounts as reported by the various vendors as having been designated to agencies for distribution to charities in the affiliate's area of responsibility. The Organization provides an accounting to each affiliate, no less than quarterly, of: (a) the amount of the Trust Account allocated to the affiliate as of the beginning of the reporting period; (b) additional amounts allocated to the affiliate during the reporting period; (c) the amounts distributed during the reporting period by the Organization from the Trust Account to designated charities on behalf of the affiliate, (d) all shared revenue distributed to the affiliate; and (e) the amount of the Trust Account allocated to the affiliate as of the end of the reporting period.

(1) Summary of significant accounting policies (continued)

Affiliates must be in compliance with the current Affiliation Agreement and have executed an agreement to participate in the Trust Account in order to receive revenue credit and revenue share from national campaigns.

Pass-throughs – As of June 30, 2013, the Organization was holding $115,388 as amount due from Charities @ Work, a coalition of federations of which the Organization is a member. The group organizes a "Best Practices Conference" in the spring and all expenses are shared equally among the member federations. The Organization's share of the cost is reflected as an expense in the financial statements.

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 affiliates and member charities from existing workplace fundraising campaigns; increasing overall recognition and representation of member agencies; 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. In addition, the Organization is classified by the Internal Revenue Service under Section 509(a)(1) as an organization that is not a private foundation and is required to report unrelated business income to the Internal Revenue Service and the State of Virginia taxing authorities. For the year ended June 30, 2013, 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.

(1) Summary of significant accounting policies (continued)

Subsequent events – The Organization has evaluated subsequent events through January 10, 2014, which is the date the financial statements were available to be issued.

(2) Property and equipment

Property and equipment consisted of the following as of June 30, 2013:

Cost		
Computer equipment	$	88,264
Software		133,508
Furniture		18,537
Leasehold improvements		11,778
Total cost		252,087
Accumulated depreciation		188,779
Net property and equipment	$	63,308

Depreciation expense for the year ended June 30, 2013 was $23,945.

(3) Commitments

The Organization has commitments under operating leases for an office expiring in September 2018 and equipment extending to fiscal year 2015.

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

Years Ending June 30,		
2014	$	100,900
2015		101,500
2016		101,400
2017		102,900
2018		105,900
Thereafter		26,700
	$	539,300

Rent expense for all operating leases for the year ended June 30, 2013 totaled $117,966.

(4) Contingencies

During the year ended June 30, 2011, the Organization learned of possible malfeasance within a state affiliate. The board of that affiliate retained council as did the Organization. The investigation by outside authorities is still on-going as of June 30, 2013. The state affiliate is legally independent of the Organization, and based on the opinion of legal counsel, the Organization does not believe it will be held liable for any judgments levied.

(5) Pension plan

The Organization has a defined contribution plan under Section 403(b) of the Internal Revenue Code 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 $95,187 were made during the year ended June 30, 2013.

(6) 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, 2013, approximately 14% of the Organization's pledges and approximately 18% of the Organization's pledges receivable were from the District of Columbia.

(7) Certificates of deposit 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.

(7) <u>Certificates of deposit and fair value measurements</u> (continued)

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.

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.

The Organization's certificates of deposit are recorded at cost, which approximates fair value. There have been no changes in the methodologies used at June 30, 2013. Within the fair value hierarchy, the Organization's certificates of deposit at fair value are Level 2 as of June 30, 2013.

(8) <u>Affiliate grants</u>

During the year ended June 30, 2013, the Organization provided three grants totaling $45,000 to an affiliate in Colorado, New England and Illinois to support expansion of their fundraising activities.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors

COMMUNITY HEALTH CHARITIES

We have audited the financial statements of Community Health Charities as of and for the year ended June 30, 2013, and have issued our report thereon dated January 10, 2014, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses for the year ended June 30, 2013, which follows, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of 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 accounting and other 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.

Mayer Hoffman McCann P.C.

Bethesda, Maryland
January 10, 2014

COMMUNITY HEALTH CHARITIES

SUPPLEMENTARY INFORMATION – SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013

	Program Services	Management and General	Fundraising	Total
PERSONNEL EXPENSES				
Salaries	$ 1,264,380	$ 269,734	$ 151,726	$ 1,685,840
Payroll taxes	92,790	19,795	11,135	123,720
Employee benefits	139,006	29,655	16,680	185,341
TOTAL PERSONNEL EXPENSES	1,496,176	319,184	179,541	1,994,901
OTHER EXPENSES				
Affiliate grants	-	-	45,000	45,000
Service Center fees	384,285	67,815	-	452,100
Professional fees	198,036	34,947	-	232,983
Temporary services	86,933	15,341	-	102,274
Training	5,194	917	-	6,111
Occupancy	79,762	17,016	9,571	106,349
Software	104,666	18,471	-	123,137
Furniture and equipment	28,837	6,152	3,460	38,449
Telephone and internet	47,350	10,101	5,682	63,133
Printing and postage	9,983	2,130	1,198	13,311
Supplies	28,300	6,037	3,396	37,733
Dues and fees	38,246	8,159	4,589	50,994
Insurance	4,109	876	493	5,478
Travel	23,734	23,036	23,037	69,807
Meetings	55,508	23,789	-	79,297
Advertising	2,582	-	-	2,582
Depreciation	17,959	3,831	2,155	23,945
TOTAL OTHER EXPENSES	1,115,484	238,618	98,581	1,452,683
TOTAL EXPENSES	$ 2,611,660	$ 557,802	$ 278,122	$ 3,447,584