

**CHILD HEALTH INVESTMENT
PARTNERSHIP, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Child Health Investment Partnership, Inc.:

We have audited the accompanying financial statements of Child Health Investment Partnership, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statement 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 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 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 Child Health Investment Partnership, Inc. as of June 30, 2015, 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 Summarized Comparative Information

We have previously audited Child Health Investment Partnership, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Foti, Alyna, Lawen & Company, P. C.

Roanoke, Virginia
October 19, 2016

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(with comparative financial information as of June 30, 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 253,268	\$ 195,515
Third party accounts receivable, net	51,464	67,380
Pledges receivable (Note 3)	65,000	63,155
Grants receivable	53,499	114,517
Other receivables	903	579
Prepaid expenses	<u>-</u>	<u>290</u>
Total current assets	<u>424,134</u>	<u>441,436</u>
OTHER ASSETS:		
Investments (Notes 4, 5 & 6)	1,942,011	1,809,338
Long term pledges receivable, net (Note 3)	219,610	245,813
Property and equipment, net of accumulated depreciation (Note 7)	<u>1,761,738</u>	<u>1,795,906</u>
Total other assets	<u>3,923,359</u>	<u>3,851,057</u>
Total assets	<u>\$ 4,347,493</u>	<u>\$ 4,292,493</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES:		
Accounts payable	\$ 7,471	\$ 6,751
Deferred revenue	2,767	-
Accrued payroll	68,297	46,760
Accrued payroll tax liabilities	827	57
Accrued vacation	43,506	41,682
Note payable - current portion (Note 8)	79,061	69,919
Total current liabilities	201,929	165,169
NONCURRENT LIABILITIES -		
Note payable - long term portion (Note 8)	286,861	365,922
Total noncurrent liabilities	286,861	365,922
Total liabilities	488,790	531,091
NET ASSETS:		
Unrestricted:		
Undesignated	1,967,363	1,949,554
Board designated (Note 6)	1,105,279	1,035,986
Total unrestricted	3,072,642	2,985,540
Temporarily restricted (Note 9)	341,449	331,250
Permanently restricted (Notes 10)	444,612	444,612
Total net assets	3,858,703	3,761,402
Total liabilities and net assets	\$ 4,347,493	\$ 4,292,493

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

STATEMENT OF ACTIVITIES

JUNE 30, 2016

(with comparative financial information as of June 30, 2015)

	Unrestricted	Temporarily Restricted
OPERATING SUPPORT AND REVENUE:		
Contributions (Note 11)	\$ 811,123	\$ 101,470
In-kind contributions (Note 12)	68,097	-
United Way of Roanoke Valley	136,670	-
Other third party billings	312,468	-
State and federal grants	259,158	-
Special events income	75,434	-
Less: Special events costs	(27,576)	-
Investment income (Note 4)	55,376	-
Realized and unrealized gains/(losses) (Note 4)	140,104	-
Other income	4,559	-
Net assets released from restrictions	91,271	(91,271)
Total operating support and revenue	1,926,684	10,199
OPERATING EXPENSES: (Note 13)		
Program services	1,613,129	-
Management and general	114,532	-
Fundraising	120,503	-
Total operating expenses	1,848,164	-
NON-OPERATING: (Note 14)		
Building tenant rent	33,208	-
Building tenant expenses	(24,626)	-
Total non-operating income (loss)	8,582	-
CHANGE IN NET ASSETS	87,102	10,199
BEGINNING NET ASSETS	2,985,540	331,250
NET ASSETS, ENDING	\$ 3,072,642	\$ 341,449

See accompanying notes to financial statements.

Permanently Restricted	2016	2015
\$ -	\$ 912,593	\$ 1,157,691
-	68,097	511,019
-	136,670	137,100
-	312,468	387,434
-	259,158	292,200
-	75,434	72,026
-	(27,576)	(13,121)
-	55,376	47,480
-	140,104	(19,166)
-	4,559	1,529
-	-	-
-	<u>1,936,883</u>	<u>2,574,192</u>
-	1,613,129	1,561,594
-	114,532	125,247
-	<u>120,503</u>	<u>135,205</u>
-	<u>1,848,164</u>	<u>1,822,046</u>
-	33,208	26,069
-	<u>(24,626)</u>	<u>(26,607)</u>
-	<u>8,582</u>	<u>(538)</u>
-	97,301	751,608
<u>444,612</u>	<u>3,761,402</u>	<u>3,009,794</u>
<u>\$ 444,612</u>	<u>\$ 3,858,703</u>	<u>\$ 3,761,402</u>

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

STATEMENT OF FUNCTIONAL EXPENSES

JUNE 30, 2016

(with comparative financial information as of June 30, 2015)

	Program Services		
	Medical Intervention	Family Intervention	Total Program Services
Salaries and wages	\$ 616,947	\$ 489,415	\$ 1,106,362
Benefits	48,936	73,783	122,719
Payroll taxes	45,206	35,514	80,720
Contract services	29,017	22,034	51,051
Occupancy costs	25,854	26,789	52,643
Insurance	4,941	7,167	12,108
Office expense	7,796	16,082	23,878
Advertising	524	1,065	1,589
Telephone	7,821	8,374	16,195
Parent support	6,650	9,084	15,734
Registration/tuition	60	25	85
Staff development	3,056	1,976	5,032
Travel	9,095	13,949	23,044
Repairs and maintenance	2,807	3,500	6,307
Van expense	5,352	1,465	6,817
Dues and subscriptions	778	56	834
Fundraising	151	137	288
Legal and audit fees	2,356	4,712	7,068
Investment fees	-	-	-
Interest expense	5,449	-	5,449
Real estate taxes	1,788	1,138	2,926
Medical services	857	-	857
Software support	7,243	12,760	20,003
Bad debts	-	-	-
Miscellaneous	1,011	457	1,468
Depreciation expense	23,144	26,808	49,952
	<u>\$ 856,839</u>	<u>\$ 756,290</u>	<u>\$ 1,613,129</u>
Total	<u>\$ 856,839</u>	<u>\$ 756,290</u>	<u>\$ 1,613,129</u>

See accompanying notes to financial statements.

<u>Management and General</u>	<u>Fundraising</u>	<u>2016 Total</u>	<u>2015 Total</u>
\$ 63,513	\$ 79,640	\$ 1,249,515	\$ 1,199,204
14,698	1,022	138,439	142,840
5,081	6,182	91,983	91,968
1,310	9,357	61,718	79,797
3,008	936	56,587	54,925
2,589	504	15,201	14,887
2,850	6,095	32,823	29,246
46	278	1,913	2,242
1,045	1,064	18,304	16,379
4	394	16,132	37,821
-	-	85	-
362	284	5,678	8,272
46	27	23,117	27,678
194	1,311	7,812	7,115
-	-	6,817	4,446
3	4	841	1,891
23	632	943	442
303	629	8,000	7,715
11,967	50	12,017	6,043
-	-	5,449	2,742
186	185	3,297	1,420
-	-	857	1,133
748	2,441	23,192	21,996
-	(1,960)	(1,960)	-
632	8,882	10,982	6,287
5,924	2,546	58,422	55,557
<u>\$ 114,532</u>	<u>\$ 120,503</u>	<u>\$ 1,848,164</u>	<u>\$ 1,822,046</u>

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

STATEMENT OF CASH FLOWS

JUNE 30, 2016

(with comparative financial information as of June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 97,301	\$ 751,608
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	65,751	59,829
Realized and unrealized (gain) loss	(140,104)	19,166
Contributions restricted for long term investment	-	(15,000)
Non-operating (income) loss	(8,582)	538
In-kind contribution of property	(27,588)	(463,134)
Change in operating assets and liabilities:		
Third party accounts receivable	15,916	(2,502)
Pledges and grants receivable	85,376	(332,210)
Other receivables	(324)	3,230
Prepaid expenses	290	8,711
Accounts payable	720	4,149
Deferred revenue	2,767	-
Accrued payroll	21,537	(3,063)
Accrued payroll tax liabilities	770	(2,930)
Accrued vacation	1,824	(2,976)
Net cash provided (used) by operating activities	115,654	25,416
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash	-	562,077
Change in investments	7,431	(441,685)
Purchase of property and equipment	(3,995)	(562,340)
Net rental income (loss)	8,582	(538)
Net cash provided (used) by investing activities	12,018	(442,486)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long term investment	-	15,000
Borrowings on line of credit	-	435,840
Net cash provided (used) by financing activities	(69,919)	-
Net increase (decrease) in cash and cash equivalents	57,753	33,770
Cash and cash equivalents, beginning of year	195,515	161,745
Cash and cash equivalents, end of year	\$ 253,268	\$ 195,515

See accompanying notes to financial statements.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Child Health Investment Partnership, Inc. (CHIP) is a human services organization designed to coordinate collaborative efforts between public and private sectors to provide health care coordination and family support services for area children living in poverty. The process of providing this service is multifaceted and includes case management, health care coordination, and parental involvement. CHIP is located in Roanoke, Virginia and primarily serves families residing in the Roanoke Valley region of western Virginia. The Organization's primary sources of revenue are public contributions, government and private grants, and fees for services.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organizations and changes therein are classified and reported as follows:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Expenses, revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Organization pursuant to those stipulations, such as spending requirements set forth by various granting and contracting agencies.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, the income on these assets, if not restricted by the donor, is available for operating needs.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents with the exception of amounts whose use is limited.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. For the year ended June 30, 2016, the allowance for doubtful accounts amounted to \$3,013.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Organization measures fair value based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs, other than the quoted prices in active markets, are observable either directly or indirectly, and Level 3 unobservable inputs in which there is little or no market data, which requires the Organization to develop its own assumptions. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Support and Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily 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 to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of donated noncash assets are recorded at their fair values in the period received.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop CHIP's programs. The value of the contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Functional Allocation of Expenses

The cost of providing the various programs and other activities 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 programs and supporting services benefitted.

Depreciation

Property and equipment is stated at cost, or if donated, at estimated fair market value at the time of donation. It is the policy of the Organization to capitalize and depreciate all asset purchases costing over two thousand five hundred (\$2,500) with useful lives in excess of five years. All donated fixed assets are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is calculated using the straight line method over the estimated useful lives of the assets and amounted to \$65,751 for the year ended June 30, 2016. \$58,422 of total depreciation expense is reported on the statement of functional expense and \$7,329 is included in building tenant expenses on the statement of activities. Estimated useful lives are summarized as follows:

Computer software	5 years
Furniture and equipment	5 years
Leasehold improvements	25 years
Buildings	39 years

There are no donor or legal limitations on the use of fixed assets, nor on the proceeds from their disposal. The Organization holds clear title to all fixed assets and none are pledged as collateral or otherwise subject to lien.

Income Taxes

CHIP is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and had no net unrelated business income for the years ended June 30, 2016 and 2015.

The Organization is no longer subject to income tax examinations by taxing authorities for any years ending on or before June 30, 2012.

Advertising

Advertising costs are expensed as incurred and amounted to \$1,913.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Recent accounting pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958). The new guidance makes substantial changes to the financial reporting model used by nonprofit organizations. The most notable change relates to the reporting of net assets by class. Current guidance specifies three classes of net assets: unrestricted, temporarily restricted and permanently restricted. ASU No. 2016-14 replaces these classes with two classes: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. Some of the additional guidance modified by ASU No. 2016-14 includes:

- The financial reporting for underwater endowments.
- Treatment of expiration of restrictions related to long-lived assets.
- Elimination of the requirement to include the indirect method reconciliation of statements of cash flows prepared on the direct method.
- Enhanced disclosures on the organization’s liquidity.
- Eliminations of the option to resent investment
- Requirement for all nonprofits to report expenses by functional class and enhanced disclosures about the methods used to allocate costs among functional classes.

ASU No. 2016-14 will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the effect of ASU No. 2016-14 on the Organization’s consolidated financial statements, but has no yet adopted ASU No. 2016-14.

2. CONCENTRATION OF CREDIT RISK:

The Organization maintains cash balances at HomeTown Bank. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2016, the Organization had no uninsured cash balances subject to concentrations of credit risk.

3. PLEDGES RECEIVABLE:

Pledges receivable are as follows:

	2016	2015
Receivable in less than one year	\$ 76,681	\$ 63,155
Receivable in one to five years	201,000	250,000
Receivable in more than five years	8,500	1,500
Total unconditional promises to give	286,181	315,155
Less discount at .75% for long term amounts	(1,571)	(6,187)
Net pledges receivable	<u>\$ 284,610</u>	<u>\$ 308,968</u>

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

4. INVESTMENTS:

CHIP's investment accounts consist of one brokerage account for future building repairs, maintenance, capital replacements, and endowments. Income and expense of this investment account is recognized when received or incurred.

Investments at June 30 are comprised of the following:

	<u>2016</u>	<u>2015</u>
Money Market	\$ 39,843	\$ 109,957
Common stocks	1,180,459	939,740
Fixed income	391,717	432,272
Mutual funds	284,268	279,174
U.S. Government securities	<u>45,724</u>	<u>48,195</u>
	<u>\$ 1,942,011</u>	<u>\$ 1,809,338</u>

Investment income consists of the following for year ended June 30, 2016:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 55,376	\$ 47,480
Realized gains (losses)	2,801	27,696
Unrealized gains (losses)	<u>137,303</u>	<u>(46,862)</u>
	<u>\$ 195,480</u>	<u>\$ 28,314</u>

5. FAIR VALUE MEASUREMENTS:

Fair values of investments measured on a recurring basis are as follows:

	<u>Quoted Price In Active Markets for Identical Assets (Level 1)</u>
Investment securities, total at June 30, 2016	<u>\$ 1,942,011</u>
Investment securities, total at June 30, 2015	<u>\$ 1,809,338</u>

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

6. ENDOWMENTS:

The endowment fund was established in May 2001 by action of the Board of Directors. The assets of this account are to be kept in perpetuity to provide investment which will be used for the long term benefit of CHIP. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of CHIP has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 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 standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Net Asset Composition by Type of Endowment Fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 444,612	\$ 444,612
Unrestricted endowment funds	<u>757,690</u>	<u>-</u>	<u>757,690</u>
Total Funds	<u>\$ 757,690</u>	<u>\$ 444,612</u>	<u>\$ 1,202,302</u>

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

6. ENDOWMENTS - (Continued):

Net Asset Composition by Type of Endowment Fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 444,612	\$ 444,612
Unrestricted endowment funds	<u>688,397</u>	<u>-</u>	<u>688,397</u>
Total Funds	<u>\$ 688,397</u>	<u>\$ 444,612</u>	<u>\$ 1,133,009</u>

Changes in Endowment net assets for year ending June 30, 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, balance at June 30, 2015	\$ 688,397	\$ 444,612	\$ 1,133,009
Investment return:			
Investment income	32,219	-	32,219
Net appreciations or depreciation (realized and unrealized)	<u>82,074</u>	<u>-</u>	<u>82,074</u>
Total Investment return	<u>114,293</u>	<u>-</u>	<u>114,293</u>
Appropriation of endowment assets for expenditure	<u>(45,000)</u>	<u>-</u>	<u>(45,000)</u>
Endowment net assets, balance at June 30, 2016	<u>\$ 757,690</u>	<u>\$ 444,612</u>	<u>\$ 1,202,302</u>

At June 30, 2016, the total Board designated net assets reported on the Statement of Financial Position is \$1,105,279. Included in that total is \$757,690 of endowment funds, shown above, and \$347,589 designated by the Board for the acquisition, maintenance and repair of buildings and other capital assets.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

6. ENDOWMENTS - (Continued):

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that are deemed prudent by the Board of Directors. There were no such material deficiencies as of June 30, 2016.

Return Objectives and Risk Parameters

The Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the fund if possible. Accordingly, the Organization expects its endowment assets, over time, to produce an average rate of return above that of the average of several public market indexes. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels or risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current year (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

No actual disbursements have been made from the endowment account since its inception in 2001, but the endowment spending policy dictates that the Organization has the ability to appropriate up to 5% of the endowment fund's average fair value using a three year rolling average valued at June 30 of each year. In establishing this policy, the Organization considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment fund to grow at an average consistent with the Organization general investment policy, which seeks minimums returns that exceed the Consumer Price Index by 4% annually and total returns to exceed 7% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

7. PROPERTY AND EQUIPMENT:

Property and equipment at June 30 is as follows:

	2016	2015
Computer equipment	\$ 42,678	\$ 42,678
Furniture and equipment	353,485	326,695
Leasehold improvements	481,876	477,081
Buildings	1,335,300	1,335,300
Land	232,000	232,000
	2,445,339	2,413,754
 Less: accumulated depreciation	 (683,601)	 (617,848)
	 \$ 1,761,738	 \$ 1,795,906

8. DEBT:

On January 11, 2016, CHIP transferred the outstanding balance from its Merrill Lynch loan management account, which functioned like a line of credit, to a new loan with First Citizens Bank in the amount of \$435,000 with an interest rate of 3%. During the year interest paid to Merrill Lynch was \$9,057 and interest paid to First Citizens Bank was \$4,566. The balance owed as of June 30, 2016 is \$365,922. This debt was incurred to finance the purchase of the building at 1215 Third Street, Roanoke, VA, and the organization plans to retire the principal over five years.

Following are estimated maturities of long-term debt:

<u>Year ended June 30,</u>			
2017	\$	79,061	
2018		81,472	
2019		83,957	
2020		86,517	
2021		34,915	
	 \$	 365,922	

CHIP has a \$75,000 unsecured line of credit agreement with a local bank which is due on demand and bears interest at the bank's prime rate. The line of credit agreement expires December 31, 2016. For the year ended June 30, 2016, no funds were drawn on the line of credit.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets as of June 30, 2015 are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
Restricted for the Glontz fund	\$ 10,366	\$ 11,644
Restricted for Bazak book fund	1,514	-
Restricted for future periods	40,612	8,820
Pledges receivable (time restricted)	272,609	294,438
Cash required to be held by Blue Ridge Behavioral Health	16,348	16,348
	<u>\$ 341,449</u>	<u>\$ 331,250</u>

10. PERMANENTLY RESTRICTED NET ASSETS:

The Organization had \$444,612 of permanently restricted net assets as of June 30, 2016. The income from these funds may be used for operations.

11. CONTRIBUTIONS:

CHIP reported unrestricted cash contributions as follows:

	<u>2016</u>	<u>2015</u>
Corporations	\$ 43,299	\$ 33,765
Foundations	112,445	155,720
Botetourt County	2,000	-
Roanoke County	19,200	19,200
City of Roanoke	45,000	45,000
City of Salem	38,000	38,000
CHIP of Virginia	269,006	269,962
Individual and other	282,173	265,286
	<u>\$ 811,123</u>	<u>\$ 826,933</u>

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

12. IN-KIND CONTRIBUTIONS:

CHIP reported In-kind contributions as follows:

	2016	2015
Donated building, (net of previously recorded free use of facilities)	\$ -	\$ 463,134
Free use of facilities:		
Salem	19,693	19,693
Miscellaneous	48,404	28,192
	\$ 68,097	\$ 511,019

13. FUNCTIONAL EXPENSES:

Functional expenses as stated on page 5 include donated expense. Without in-kind donated expenses of \$68,097 for fiscal year June 30, 2016, functional expenses would be as follows:

	2016		2015	
	Amounts	%	Amounts	%
Medical Intervention	\$ 823,655	46%	\$ 810,346	45%
Family Intervention	719,585	41%	710,546	40%
Management and General	112,278	6%	148,502	8%
Fundraising	115,190	7%	131,374	7%
Totals	\$ 1,770,708	100.00%	\$ 1,800,768	100.00%

14. LEASING ARRANGEMENTS:

Lessee

CHIP had been leasing its current office space under a noncancellable operating lease for an initial term of 25 years beginning January 1, 2002 and ending December 31, 2027 from the Carilion Foundation. During the year ended June 30, 2015, Carilion Foundation donated the building to CHIP. The remaining present value of the lease was netted with the value of the donated building and as a result a \$463,134 noncash contribution was included in prior year contribution income.

CHIP also has an office in Salem, Virginia made available through in-kind contributions. The values of the donated space and related utilities and services are estimated to be \$19,693 for the year ended June 30, 2016, and have been recorded as unrestricted contributions and occupancy expenses.

CHILD HEALTH INVESTMENT PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

14. LEASING ARRANGEMENTS – (Continued):

Lessor

CHIP purchased the building adjacent to their current offices and on March 1, 2015 entered into a 2 year lease arrangement with Kuumba Community Health Center Inc., d/b/a New Horizons Healthcare for a portion of the building. The lease expires on February 28, 2017, and is renewable by the tenant for an additional 3 years. Rent is paid monthly in the amount of \$2,767.33 and shall increase by 3% per year during the renewal period beginning March 1, 2017. Rent income and the associated expenses are reported as non-operating income (loss) on the statement of activities.

15. RETIREMENT PLAN:

The Organization provides retirement benefits to its employees through a 403(b) defined contribution plan covering employees working a minimum of 20 hours per week, with one year of eligible service. The Organization matches one half of employee contributions up to a maximum contribution of two and one half percent (2 ½%) of gross wages. Contributions to the plan during the year ended June 30, 2016 were \$17,334.

16. SUBSEQUENT EVENTS:

During August 2016, CHIP was notified it would no longer receive the Virginia Department of Health's MIECHV grant. The MIECHV grant accounted for roughly 15% of 2017 budgeted revenue and roughly 13% of current year revenue. Grant payments will cease as of September 30, 2016.

Management evaluated possible subsequent events through October 19, 2016, which is the date the financial statements were available for issue.