



Financial Statements
(Together with Independent Auditors' Report)

For The Years Ended December 31, 2016 and 2015
and
Single Audit Reports and Schedule Required by Office of
Management and Budget Uniform Guidance

For The Year Ended December 31, 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

**PUBLIC HEALTH SOLUTIONS
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**AND
SINGLE AUDIT REPORTS AND SCHEDULE REQUIRED BY OFFICE OF
MANAGEMENT AND BUDGET UNIFORM GUIDANCE**

FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Public Health Solutions

Report on the Financial Statements

We have audited the accompanying financial statements of Public Health Solutions (the "Organization") which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Public Health Solutions as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, for the year ended December 31, 2016, (shown on pages 23-25) as required by Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”), is presented for purposes of additional analysis and is not a required part of the 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 audits 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control over financial reporting and compliance.



New York, NY

June 20, 2017, except for the Schedule of Expenditures of Federal Awards as to which the date is September 22, 2017.

**PUBLIC HEALTH SOLUTIONS
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2B and 3)	\$ 16,951,826	\$ 24,864,976
Certificates of deposit (Notes 2C and 3)	374,273	371,737
Grants receivable (Notes 2D and 3):		
Federal	8,463,997	13,416,633
New York State/New York City	32,374,220	4,009,417
Private	791,384	1,235,263
Contributions receivable (Note 2J)	14,060	62,450
Service reimbursement receivable (Notes 2K and 3)	850,333	1,049,587
Supplies inventory (Note 2E)	150,497	90,933
Advances to subcontractors (Note 2G)	261,451	979,021
Deposits and other assets	343,397	346,756
Total current assets	<u>60,575,438</u>	<u>46,426,773</u>
Non-current assets:		
Property and equipment, net of accumulated depreciation and amortization (Notes 2F and 4)	1,701,133	888,658
Deposits and other assets	363,594	363,594
Total non-current assets	<u>2,064,727</u>	<u>1,252,252</u>
TOTAL ASSETS	\$ 62,640,165	\$ 47,679,025
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 9C)	\$ 55,871,553	\$ 32,863,448
Borrowings under line of credit (Note 6)	1,650,000	3,400,000
Advances from government and other agencies (Note 2H)	5,719,797	11,395,303
Total current liabilities	<u>63,241,350</u>	<u>47,658,751</u>
Non-current liabilities:		
Pension liability (Note 5)	23,683,076	22,796,442
Total non-current liabilities	<u>23,683,076</u>	<u>22,796,442</u>
TOTAL LIABILITIES	<u>86,924,426</u>	<u>70,455,193</u>
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
NET ASSETS (DEFICIT) (Note 2I)		
Unrestricted:		
Undesignated	12,383,053	11,368,412
Net unrecognized actuarial loss on pension plan (Note 5)	(37,075,944)	(34,802,229)
Total unrestricted	(24,692,891)	(23,433,817)
Temporarily restricted (Note 7)	91,847	393,046
Permanently restricted (Note 7)	316,783	264,603
TOTAL NET ASSETS (DEFICIT)	<u>(24,284,261)</u>	<u>(22,776,168)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 62,640,165	\$ 47,679,025

The accompanying notes are an integral part of these financial statements.

**PUBLIC HEALTH SOLUTIONS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Year Ended December 31, 2016				Year Ended December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
REVENUES AND SUPPORT:								
Government grants, service contracts and medical reimbursements (Note 2K):								
New York State	\$ 18,590,280	\$ -	\$ -	\$ 18,590,280	\$ 15,285,086	\$ -	\$ -	\$ 15,285,086
New York City	163,242,609	-	-	163,242,609	124,843,190	-	-	124,843,190
Federal	42,063,596	-	-	42,063,596	45,130,319	-	-	45,130,319
Medicaid and other third party	6,665,428	-	-	6,665,428	7,205,811	-	-	7,205,811
Interest income	14,229	1,855	-	16,084	20,540	927	-	21,467
Other income	1,228,516	-	-	1,228,516	1,578,750	-	-	1,578,750
Nongovernment grants and contributions (Note 2J):								
Foundations and private grants	8,276,185	-	-	8,276,185	12,377,687	-	-	12,377,687
Contributions	603,658	-	52,180	655,838	438,833	342,068	264,603	1,045,504
Net assets released from restrictions (Note 7)	303,054	(303,054)	-	-	1,205,110	(1,205,110)	-	-
TOTAL REVENUE AND SUPPORT	240,987,555	(301,199)	52,180	240,738,536	208,085,326	(862,115)	264,603	207,487,814
EXPENSES (Note 2M):								
Program services:								
Reproductive health	7,440,190	-	-	7,440,190	8,283,997	-	-	8,283,997
HIV/STD	140,012,229	-	-	140,012,229	118,970,417	-	-	118,970,417
Nutrition	9,276,325	-	-	9,276,325	10,115,120	-	-	10,115,120
Child health and development	7,832,582	-	-	7,832,582	8,567,419	-	-	8,567,419
Emergency preparedness	31,682,788	-	-	31,682,788	35,317,686	-	-	35,317,686
Training and technical assistance	544,740	-	-	544,740	1,280,049	-	-	1,280,049
Other miscellaneous programs	35,722,635	-	-	35,722,635	17,005,963	-	-	17,005,963
Total program services	232,511,489	-	-	232,511,489	199,540,651	-	-	199,540,651
Management and general	7,084,042	-	-	7,084,042	7,195,092	-	-	7,195,092
Fundraising and development	377,383	-	-	377,383	348,172	-	-	348,172
TOTAL EXPENSES	239,972,914	-	-	239,972,914	207,083,915	-	-	207,083,915
CHANGE IN NET ASSETS BEFORE PENSION LIABILITY ADJUSTMENT	1,014,641	(301,199)	52,180	765,622	1,001,411	(862,115)	264,603	403,899
Pension liability adjustment (Note 5)	(2,273,715)	-	-	(2,273,715)	(345,656)	-	-	(345,656)
CHANGE IN NET ASSETS	(1,259,074)	(301,199)	52,180	(1,508,093)	655,755	(862,115)	264,603	58,243
Net assets - beginning of year	(23,433,817)	393,046	264,603	(22,776,168)	(24,089,572)	1,255,161	-	(22,834,411)
NET ASSETS - END OF YEAR	\$ (24,692,891)	\$ 91,847	\$ 316,783	\$ (24,284,261)	\$ (23,433,817)	\$ 393,046	\$ 264,603	\$ (22,776,168)

The accompanying notes are an integral part of these financial statements.

**PUBLIC HEALTH SOLUTIONS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services							Total Program Services	Management and General	Fundraising and Development	TOTAL 2016
	Reproductive Health	HIV/STD	Nutrition	Child Health and Development	Emergency Preparedness	Training and Technical Assistance	Other Miscellaneous Program				
Salaries and wages	\$ 2,880,184	\$ 4,904,526	\$ 5,939,693	\$ 5,236,823	\$ 1,293,627	\$ 47,995	\$ 5,483,166	\$ 25,786,014	\$ 4,543,360	\$ 129,687	\$ 30,459,061
Payroll taxes and employee benefits excluding defined benefit plan (ERISA Funding) (Note 5)	691,486	1,175,748	1,423,903	1,255,424	310,104	44,927	1,313,652	6,215,244	1,089,985	31,090	7,336,319
Net periodic benefit cost (Note 5)	(22,084)	(37,550)	(45,476)	(40,095)	(9,904)	(1,435)	(41,955)	(198,499)	(34,811)	(993)	(234,303)
Defined benefit plan (ERISA Funding) (Note 5)	155,559	264,500	320,326	282,424	69,762	10,107	295,523	1,398,201	245,206	6,994	1,650,401
	<u>3,705,145</u>	<u>6,307,224</u>	<u>7,638,446</u>	<u>6,734,576</u>	<u>1,663,589</u>	<u>101,594</u>	<u>7,050,386</u>	<u>33,200,960</u>	<u>5,843,740</u>	<u>166,778</u>	<u>39,211,478</u>
Subcontractors:											
Title X	2,170,307	-	-	-	-	-	-	2,170,307	-	-	2,170,307
Ryan White	-	88,840,387	-	-	-	-	-	88,840,387	-	-	88,840,387
HIV Prevention	-	33,223,479	-	-	-	-	-	33,223,479	-	-	33,223,479
CTL Master Administrator	-	-	-	-	-	-	17,255,772	17,255,772	-	-	17,255,772
Emergency Preparedness	-	-	-	-	23,927,156	-	-	23,927,156	-	-	23,927,156
Various	509,358	2,131,180	5,000	-	-	161,214	4,876,457	7,683,209	-	-	7,683,209
Patient care	199,736	-	-	-	-	-	-	199,736	-	-	199,736
Purchased services	78,668	191,274	65,993	76,385	91,711	233,455	191,467	928,953	67,287	36	996,276
Occupancy (Note 8)	202,169	560,536	1,017,793	685,396	74,200	-	3,035,700	5,575,794	288,363	14,747	5,878,904
Supplies	138,658	2,440,916	210,984	67,399	1,553,300	7,823	684,448	5,103,528	139,855	1,024	5,244,407
Communications	71,533	38,236	107,892	144,790	123,008	-	102,033	587,492	80,912	466	668,870
Maintenance and repairs	118,678	376,514	167,436	49,473	709,507	-	125,670	1,547,278	54,615	1,578	1,603,471
Postage	2,581	10,804	49,183	18,207	6,813	264	6,614	94,466	15,963	3,943	114,372
Marketing and promotion	12,209	1,662,945	5,562	32,982	194,572	-	453,068	2,361,338	-	-	2,361,338
Printing	5,180	564,441	98,200	11,258	42,456	24,157	135,933	881,625	6,118	18,053	905,796
Insurance	122,093	30,257	21,513	9,559	851	569	13,401	198,243	75,417	-	273,660
Travel	63,242	127,553	41,988	42,824	11,877	13,061	101,444	401,989	17,919	142	420,050
Equipment rental	23,749	115,958	33,485	64,321	2,059	-	67,129	306,701	26,467	456	333,624
Professional fees	36,426	2,803,863	22,805	14,186	3,202,206	(10,145)	1,601,414	7,670,755	556,707	167,952	8,395,414
Recruitment and training	10,924	551,460	8,666	24,579	101,088	20,751	185,739	903,207	56,844	1,081	961,132
Interest expense	94,659	-	-	16,128	-	-	-	110,787	860	2,627	114,274
Sundry expenses	4,279	236,979	1,366	8,191	38,253	669	89,528	379,265	37,911	4,501	421,677
Total expenses before depreciation and amortization	<u>7,569,594</u>	<u>140,214,006</u>	<u>9,496,312</u>	<u>8,000,254</u>	<u>31,742,646</u>	<u>553,412</u>	<u>35,976,203</u>	<u>233,552,427</u>	<u>7,268,978</u>	<u>383,384</u>	<u>241,204,789</u>
Depreciation and amortization	<u>4,071</u>	<u>25,173</u>	<u>54,863</u>	<u>74,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,764</u>	<u>25,459</u>	<u>-</u>	<u>184,223</u>
Total expenses including ERISA Funding, excluding NPBC (A)	<u>7,573,665</u>	<u>140,239,179</u>	<u>9,551,175</u>	<u>8,074,911</u>	<u>31,742,646</u>	<u>553,412</u>	<u>35,976,203</u>	<u>233,711,191</u>	<u>7,294,437</u>	<u>383,384</u>	<u>241,389,012</u>
Net periodic benefit cost (Note 5)	22,084	37,550	45,476	40,095	9,904	1,435	41,955	198,499	34,811	993	234,303
ERISA Funding Adjustment	(155,559)	(264,500)	(320,326)	(282,424)	(69,762)	(10,107)	(295,523)	(1,398,201)	(245,206)	(6,994)	(1,650,401)
TOTAL EXPENSES (B)	<u>\$ 7,440,190</u>	<u>\$ 140,012,229</u>	<u>\$ 9,276,325</u>	<u>\$ 7,832,582</u>	<u>\$ 31,682,788</u>	<u>\$ 544,740</u>	<u>\$ 35,722,635</u>	<u>\$ 232,511,489</u>	<u>\$ 7,084,042</u>	<u>\$ 377,383</u>	<u>\$ 239,972,914</u>

(A) Represents total expenses including \$1,650,401 cash payments in accordance with required ERISA funding standards and excluding \$243,303 in net periodic benefit cost.

(B) Represents total expenses after application of \$1,650,401 cash payments against pension liability and including \$243,303 in net period benefit cost in accordance with accounting principles generally accepted in the United States of America

**PUBLIC HEALTH SOLUTIONS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Services							Total Program Services	Management and General	Fundraising and Development	TOTAL 2015
	Reproductive Health	HIV/STD	Nutrition	Child Health and Development	Emergency Preparedness	Training and Technical Assistance	Other Miscellaneous Program				
Salaries and wages	\$ 2,757,108	\$ 4,962,014	\$ 6,268,504	\$ 5,753,673	\$ 1,548,968	\$ 204,585	\$ 9,045,706	\$ 30,540,558	\$ 4,207,102	\$ 169,714	\$ 34,917,374
Payroll taxes and employee benefits excluding defined benefit plan (ERISA Funding) (Note 5)	655,997 #	1,179,603	1,496,101	1,369,577	368,709	120,025	2,153,196	7,343,208	1,002,968	40,398	8,386,574
Net periodic benefit cost (Note 5)	(55,582)	(99,946)	(126,762)	(116,042)	(31,240)	(10,170)	(182,437)	(622,179)	(84,980)	(3,422)	(710,581)
Defined benefit plan (ERISA Funding) (Note 5)	157,453	283,129	359,096	328,727	88,498	28,809	516,812	1,762,524	240,733	9,696	2,012,953
	<u>3,514,976</u>	<u>6,324,800</u>	<u>7,996,939</u>	<u>7,335,935</u>	<u>1,974,935</u>	<u>343,249</u>	<u>11,533,277</u>	<u>39,024,111</u>	<u>5,365,823</u>	<u>216,386</u>	<u>44,606,320</u>
Subcontractors:											
Title X	2,442,541	-	-	-	-	-	-	2,442,541	-	-	2,442,541
Ryan White	-	83,258,320	-	-	-	-	-	83,258,320	-	-	83,258,320
HIV Prevention	-	20,337,800	-	-	-	-	-	20,337,800	-	-	20,337,800
HOPWA	-	1,485,977	-	-	-	-	-	1,485,977	-	-	1,485,977
Emergency Preparedness	-	-	-	-	12,954,067	-	-	12,954,067	-	-	12,954,067
Various	529,145	256,603	-	-	1,637,722	-	614,478	3,037,948	-	-	3,037,948
Patient care	220,910	-	-	-	-	-	-	220,910	-	-	220,910
Purchased services	78,786	93,466	83,536	83,591	284,256	428,550	121,079	1,173,264	108,845	1,798	1,283,907
Occupancy (Note 8)	208,826	456,747	892,961	778,450	161,255	-	2,646,311	5,144,550	577,818	-	5,722,368
Supplies	268,296	2,561,015	307,998	87,109	1,989,551	3,435	330,911	5,548,315	129,563	5,979	5,683,857
Communications	67,850	61,416	88,120	160,734	114,921	-	52,119	545,160	59,680	240	605,080
Project Renovations/Non-Capital	-	-	-	-	97,106	-	-	97,106	-	-	97,106
Maintenance and repairs	67,511	28,495	147,864	32,994	506,909	-	79,615	863,388	154,291	853	1,018,532
Postage	2,308	3,615	45,903	17,039	1,475	539	5,633	76,512	19,960	3,562	100,034
Marketing and promotion	33,759	1,525,315	16,443	41,763	117,806	-	696,912	2,431,998	-	-	2,431,998
Printing	10,931	258,055	26,937	15,921	165,830	262	23,939	501,875	8,167	20,289	530,331
Insurance	136,558	29,130	20,626	9,090	1,161	1,273	15,890	213,728	71,617	-	285,345
Travel	77,265	70,028	161,668	53,065	27,119	26,436	70,298	485,879	14,425	(1,329)	498,975
Equipment rental	28,196	26,877	33,679	70,427	4,288	-	41,545	205,012	44,864	93	249,969
Professional fees	574,982	2,008,993	480,771	35,122	15,208,339	345,632	885,027	19,538,866	508,013	96,428	20,143,307
Recruitment and training	51,589	132,026	5,494	42,452	84,195	55,189	15,123	386,068	202,248	995	589,311
Interest expense	55,033	-	-	-	-	-	-	55,033	387	3,648	59,068
Sundry expenses	14,954	203,626	4,768	13,913	44,009	94,123	80,076	455,469	43,672	5,504	504,645
Total expenses before depreciation and amortization	<u>8,384,416</u>	<u>119,122,304</u>	<u>10,313,707</u>	<u>8,777,605</u>	<u>35,374,944</u>	<u>1,298,688</u>	<u>17,212,233</u>	<u>200,483,897</u>	<u>7,309,373</u>	<u>354,446</u>	<u>208,147,716</u>
Depreciation and amortization	<u>1,452</u>	<u>31,296</u>	<u>33,747</u>	<u>2,499</u>	<u>-</u>	<u>-</u>	<u>128,105</u>	<u>197,099</u>	<u>41,472</u>	<u>-</u>	<u>238,571</u>
Total expenses including ERISA Funding, excluding NPBC (A)	<u>8,385,868</u>	<u>119,153,600</u>	<u>10,347,454</u>	<u>8,780,104</u>	<u>35,374,944</u>	<u>1,298,688</u>	<u>17,340,338</u>	<u>200,680,996</u>	<u>7,350,845</u>	<u>354,446</u>	<u>208,386,287</u>
Net periodic benefit cost (Note 5)	55,582	99,946	126,762	116,042	31,240	10,170	182,437	622,179	84,980	3,422	710,581
ERISA Funding Adjustment	(157,453)	(283,129)	(359,096)	(328,727)	(88,498)	(28,809)	(516,812)	(1,762,524)	(240,733)	(9,696)	(2,012,953)
TOTAL EXPENSES (B)	\$ 8,283,997	\$ 118,970,417	\$ 10,115,120	\$ 8,567,419	\$ 35,317,686	\$ 1,280,049	\$ 17,005,963	\$ 199,540,651	\$ 7,195,092	\$ 348,172	\$ 207,083,915

(A) Represents total expenses including \$2,012,953 cash payments in accordance with required ERISA funding standards and excluding \$710,581 in net periodic benefit cost.

(B) Represents total expenses after application of \$2,012,953 cash payments against pension liability and including \$710,581 in net period benefit cost in accordance with accounting principles generally accepted in the United States of America.

**PUBLIC HEALTH SOLUTIONS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,508,093)	\$ 58,243
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	184,223	238,571
Pension related changes other than net periodic pension cost	2,273,715	345,656
Decrease (increase) in assets:		
Grants receivable	(22,968,288)	(9,802,824)
Contribution receivable	48,390	34,560
Service reimbursements receivable	199,254	302,051
Supplies inventory	(59,564)	(4,978)
Advances to subcontractors	717,570	(787,787)
Deposits and other assets	3,359	(218,722)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	23,008,105	8,426,626
Advances from government and other agencies	(5,675,506)	3,326,819
Pension liability	(1,387,081)	(1,176,924)
Net Cash (Used in) Provided by Operating Activities	(5,163,916)	741,291
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(996,698)	(668,801)
Increase in certificates of deposit	(2,536)	(2,391)
Net Cash Used in Investing Activities	(999,234)	(671,192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	2,000,000
Repayment of borrowings on line of credit	(1,750,000)	-
Net Cash (Used in) Provided by Financing Activities	(1,750,000)	2,000,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,913,150)	2,070,099
Cash and Cash Equivalents - Beginning of Year	24,864,976	22,794,877
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 16,951,826	\$ 24,864,976
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 94,209	\$ 54,770

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 – NATURE OF ACTIVITIES

Incorporated in November 1957 in the State of New York, Public Health Solutions is a major New York City-based nonprofit organization. As one of the country's largest public health institutes, its mission is to integrate research, policy, capacity building, and service to improve the health of people and communities throughout the country.

For more than 50 years, it has led the quest for innovation and progress in community health through its three core areas of work: both direct and contracted services to improve health, with a focus on disparities in access and outcomes; capacity and organization-building support for the nonprofit and governmental sectors; and cutting-edge research and evaluation across its fields.

Public Health Solutions is a public charity, classified as a 501(c)(3) organization and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

B. *Cash Equivalents*

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less when acquired.

Under provisions stipulated by certain of Public Health Solutions' funding agencies, cash advances for program services are required to be held in separate accounts. Cash maintained in these segregated accounts for the Ryan White, HIV Prevention, Minority AIDS Initiative, CTL Master Administrator and One City Health programs totaled approximately \$13,959,000 and \$22,025,000 at December 31, 2016 and 2015, respectively.

C. *Certificates of Deposit*

Certificates of deposit that are not debt securities are carried at cost, which approximates fair value because of the short maturities of the certificates of deposit.

D. *Grants Receivable*

Grants receivable are recognized to the extent of support earned in excess of advances and payments received.

E. *Supplies Inventory*

Supplies inventory, consisting primarily of pharmaceuticals, is stated at cost using the first-in, first-out method.

F. *Property and Equipment*

Public Health Solutions capitalizes property and equipment valued at \$5,000 or greater. Capital assets are stated at cost at the date of acquisition or fair value at the date of contribution, if donated. Public Health Solutions retains assets purchased with grantor restricted funds, unless the grantor requests that such equipment be returned. Purchases of property and equipment reimbursed by governmental funding sources and for which the contractual agreement specifies that title to these assets rests with the governmental funding sources are expensed.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment, furniture and fixtures are depreciated over a five-year estimated useful life using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset. Improvements on premises having no lease are amortized over estimated useful lives of five years. Amortization of fixed assets held under capital leases is included in depreciation and amortization expense.

G. *Advances to Subcontractors*

Advances to subcontractors consist of advances Public Health Solutions has made to subcontractors under various agreements. The amounts advanced are generally equal to 25 percent of the total grant award and will be offset against expenses incurred by the subcontractor during the grant award year. Unreimbursed allowable expenditures incurred by the subcontractors are recorded as accounts payable prior to final settlement.

H. *Advances from Government Agencies*

Advances from government agencies and all other sources are deferred when received and recorded as revenue in the period in which the related services are rendered.

I. *Net Assets (Net Deficit)*

Public Health Solutions' resources are classified and reported based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - include resources not subject to donor-imposed restrictions.

Temporarily restricted - include resources subject to donor-imposed stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted - include resources subject to donor-imposed stipulations, requiring that the principal be maintained in perpetuity, but permit Public Health Solutions to expend part or all of the income and gains derived therefrom.

J. *Contributions*

Public Health Solutions records contributions of cash and other assets when an unconditional promise to give is received from a donor. Contributions are recorded at the fair value of the assets received and are classified as either unrestricted, temporarily restricted or permanently restricted support depending on the existence of any donor restrictions.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

Material contributions of noncash assets are recorded at their fair value in the period received.

K. *Government Grants, Service Contracts and Medical Reimbursement Revenue*

Public Health Solutions' grants and contracts are primarily expense reimbursement agreements; however, some arrangements are performance based.

The terms under which government grants are awarded for reimbursement of actual expenditures within the grant period. Funds are received in either predetermined installments or in increments based on estimated or actual expenditures for the period. When grants end, unexpended funds received are returnable to the grantor. Accordingly, grant income under these awards is recognized in amounts equal to actual expenditures incurred.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any deficiency or excess of receipts under or over actual expenditures incurred is reported in the financial statements under the appropriate captions "Grants receivable" or "Advances from government and other agencies."

For performance based agreements, revenue is recognized when performance goals are met and/or contract deliverables are completed.

Service contract revenue and medical reimbursement revenue are recognized at the time the contractual service is delivered.

L. *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. *Functional Expense Allocation*

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

N. *Fair Value Measurements*

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 5.

NOTE 3 – CONCENTRATION OF CREDIT RISK

The financial instruments that potentially subject Public Health Solutions to concentrations of credit risk consist principally of cash and cash equivalents, certificates of deposit, and grants and service reimbursement receivables.

At times during the year, Public Health Solutions' cash balances and certificates of deposit may exceed the limits of Federal Deposit Insurance Corporation ("FDIC") insurance coverage. At December 31, 2016 and 2015, Public Health Solutions' uninsured cash balances and certificates of deposit totaled approximately \$20.7 million and \$30.4 million, respectively. Management does not anticipate nonperformance by the financial institution and believes that the credit risk related to these accounts is negligible.

Grants and service reimbursement receivables' credit risk is limited due to the nature of the grants and the services. Public Health Solutions regularly monitors its grant and service reimbursement receivables by investigating delayed payments and differences when payments received do not conform to the amount billed. Public Health Solutions considered all grant and service reimbursements receivables at December 31, 2016 and 2015 as collectible.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	\$ 4,993,754	\$ 3,861,005	5 to 10 Years
Equipment, furniture and fixtures	1,365,140	1,279,350	5 Years
Construction in progress	<u>-</u>	<u>441,613</u>	-
Total cost	6,358,894	5,581,968	
Less: Accumulated depreciation and amortization	<u>(4,657,761)</u>	<u>(4,693,310)</u>	
Net book value	<u>\$ 1,701,133</u>	<u>\$ 888,658</u>	

Depreciation expenses amounted to \$184,223 and \$238,571 for the years ended December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, Public Health Solutions wrote-off fully depreciated property and equipment of \$219,772 and \$160,076, respectively.

As of December 31, 2015, construction in progress primarily consists of the renovation of the Early Intervention program site. It was completed in January 2016.

NOTE 5 – PENSION PLANS

Public Health Solutions has a frozen defined benefit pension plan (the “Plan”) covering certain employees who completed 1,000 hours of service for each of the five years required to vest. The Plan calls for benefits to be paid to eligible employees at retirement based primarily on years of service and average salary, as defined.

Plan valuation for funding purposes and for financial reporting purposes is prepared using the required projected unit credit method. Public Health Solutions' policy is to fund the pension expenses determined by the projected unit credit method, subject to the Internal Revenue Service funding limitation rules.

The obligations and funded status of the Plan was as follows:

	<u>2016</u>	<u>2015</u>
Benefit obligation at December 31	\$ (61,685,606)	\$ (59,995,608)
Fair value of Plan assets at December 31	<u>38,002,530</u>	<u>37,199,166</u>
Net unfunded status of the Plan at December 31	<u>\$ (23,683,076)</u>	<u>\$ (22,796,442)</u>
Net periodic benefit cost	<u>\$ 234,303</u>	<u>\$ 710,581</u>
Accumulated benefit obligation at December 31	<u>\$ (61,685,606)</u>	<u>\$ (59,995,608)</u>
Employer contributions	<u>\$ 1,621,384</u>	<u>\$ 1,887,733</u>
Benefits paid	<u>\$ 3,264,513</u>	<u>\$ 3,141,304</u>

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – PENSION PLANS (Continued)

	<u>2016</u>	<u>2015</u>
Accrued pension liability recognized in the statement of financial position	\$ <u>23,683,076</u>	\$ <u>22,796,442</u>
Net unrecognized actuarial loss included in unrestricted net assets	\$ <u>37,075,944</u>	\$ <u>34,802,229</u>

The change in net unrecognized actuarial loss during 2016 and 2015 included the following:

	<u>2016</u>	<u>2015</u>
January 1, net unrecognized actuarial loss included in unrestricted net assets	\$ 34,802,229	\$ 34,456,573
Actual (return) loss on plan assets	(3,216,993)	412,507
Expected return on plan assets	2,842,617	2,841,142
Actuarial loss (gain)	2,905,632	(2,446,588)
Amortization of net loss	(1,028,041)	(1,068,158)
Plan expenses paid	<u>770,500</u>	<u>606,753</u>
December 31, net unrecognized actuarial loss included in unrestricted net assets	\$ <u>37,075,944</u>	\$ <u>34,802,229</u>

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Net loss	\$ 3,301,756	\$ 1,413,814
Amortization of net loss	<u>(1,028,041)</u>	<u>(1,068,158)</u>
Total recognized in change in unrestricted net assets	\$ <u>2,273,715</u>	\$ <u>345,656</u>
Total recognized in net periodic pension cost and change in unrestricted net assets	\$ <u>2,508,018</u>	\$ <u>1,056,237</u>

The estimated net loss for the pension plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year is \$1,166,765.

The following table provides weighted average assumptions and certain other information for the Plan:

	<u>2016</u>	<u>2015</u>
The weighted average assumptions used to determine benefit obligations were as follows:		
Discount rate	4.11%*	4.37%*
The weighted average assumptions used to determine net periodic benefit costs were as follows:		
Discount rate	4.37%	4.00%
Expected long-term return on plan assets	7.50%	7.50%

* Single effective rate representing end of year benefit obligation determined by applying the individual spot rates from the bond yield curve to each future year's cash flows. As such, a single effective rate no longer applies. PHS has elected to use the SYC20 curve for discounting the cash flows.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – PENSION PLANS (Continued)

The expected long-term rate of return on assets assumption represents the average earnings rate expected on the funds invested or to be invested to cover the accumulated benefit obligation. The assumption reflects expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

Estimated future benefit payments based on expected future service for each of the five years subsequent to December 31, 2016 and in the aggregate for the five years thereafter are as follows:

2017	\$	3,620,984
2018		3,647,028
2019		3,688,130
2020		3,689,236
2021		3,658,957
2022-2026		18,113,372

Investment Policies and Strategies

State Street Bank & Trust Company is the custodian for all Plan funds.

The Plan is managed under a diversified investment program with the goals of capital preservation and income generation. Plan assets are allocated among specialized long-term investment strategies designed to maximize total return while minimizing the risk of loss of principal and the erosion of principal due to inflation.

The primary means by which capital preservation is to be achieved is through the diversification of the Plan's investments across asset classes. The appropriate level of risk for the Plan is determined by examining the risk and reward of numerous asset allocation alternatives.

The adopted asset allocation policy as of December 31, 2016 was as follows:

	<u>Target</u>	<u>Range</u>
Domestic Equity - Large Cap	14.50%	9.50 – 19.50%
Domestic Equity - Small Cap	13.50%	8.50 – 18.50%
International Equity - Developed	15.00%	10.00 – 20.00%
International Equity - Emerging Markets	7.75%	2.75 – 12.75%
Fixed Income - Core	15.00%	10.00 – 20.00%
Fixed Income - High Yield	4.75%	0.00 – 9.75%
Real Estate	9.50%	4.50 – 14.50%
Hedge Fund of Funds	5.00%	0.00 – 10.00%
Real Assets	5.00%	0.00 – 10.00%
Private Market - Debt	5.00%	0.00 – 10.00%
Private Market - Equity	5.00%	0.00 – 10.00%

The Plan's Trustees desire to achieve investment results that will culminate in promised plan benefits being ultimately paid to plan participants and their beneficiaries. Benefits will be paid from a combination of employer contributions and investment earnings of the Plan's assets. The amount the employer is obligated to contribute to the Plan is dependent on the performance of the invested assets.

It is the intention of the Trustees to allow each Investment Manager discretion in investing the account it manages on the Plan's behalf (its "Account") within the scope of the Plan's statement of overall investment objectives and policy, and any legal documentation such as prospectuses or other representations and warranties.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – PENSION PLANS (Continued)

The Plan will invest in:

Six commingled funds, managed by State Street Global Advisors:

- S&P 500 Index Fund
- Russell 2000 Index Fund
- Passive Bond Market Index Fund
- Daily MSCI EAFE Index Non-Lending Fund
- MSCI Emerging Markets Index Fund
- Real Asset Non-Lending Fund

Three funds, managed by Neuberger Berman:

- The Neuberger Berman High Income Bond R6 Fund (NRHIX)
- The Neuberger Berman Private Debt Fund
- The Neuberger Berman Crossroads XXI Fund (Private Equity)

An open-ended real estate fund, managed by UBS Realty Advisors:

- UBS Trumbull Property Fund

An open-ended hedge fund of funds, managed by Aetos Capital:

- Capital Growth Portfolio

The investment strategies used will be determined by mutual consent of the Trustees and the investment managers, and no changes in the accounts will be made without the mutual consent of both parties.

The expected long term rate of return on assets is between 7% and 8% per annum. The assumption is based on the investment consultant's projected returns for each major category. The assumptions combine a historical and forward thinking approach. The building blocks approach is utilized to determine the major categories' assumptions. The 10-year Treasury Strip is used as the initial building block for a number of reasons. The yield on the 10-year Treasury Strip is a guaranteed payment in 10 years, which would correspond to a more predictable risk-free rate. In addition, it has the same horizon that the capital market assumptions are intended to forecast.

The next building block for the equity assumptions is the risk premium. The equity risk premium is determined by taking into account various white papers, presentations, and interviews with thought leaders and industry experts coupled with the consultant's view of the economic environment. For each equity category, various additions to this premium are made based on the specific asset class.

For fixed income the consultant begins with the risk-free rate adding various premia based on historical spread and default risk, mindful of specific characteristics relevant to each asset class.

A similar approach is taken in the alternative space to develop assumptions for real estate, hedge funds and commodities. The fixed income framework is applied for real estate.

In order to allow for uncertainties associated with forecasting capital market assumptions, the consultant uses stochastic modeling for all asset allocation studies, which provides a broad range of possible outcomes. Stochastic modeling generates a thousand iterations or possible outcomes, which are then averaged to present results for further analysis, including the probability of achieving a particular outcome. Asset allocation studies include return and wealth percentile charts that emphasize the range of probable outcomes.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – PENSION PLANS (Continued)

Significant Concentrations of Risk

Investments within each major category are diversified among type of investment, sectors within the investment and weight in the total account to reduce concentration risk. The major categories can be categorized from least risky to most risky in terms of investment mandate as follows: domestic fixed income, real estate, high yield fixed income, large cap equity, small cap equity, international equity, emerging markets equity.

Fair Value Measurements of Plan Assets

The Plan values its assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The three levels denote a classification of the inputs used to measure fair value and are not intended to provide an indication of the quality or safety of the investments and other financial assets.

The Plan's financial assets measured at fair value on a recurring basis as of December 31, 2016 were classified in the tables below in one of the three categories as defined above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common/Collective Trusts:				
Domestic Equity – Large Cap	\$ -	\$ 5,643,827	\$ -	\$ 5,643,827
Domestic Equity – Small Cap	-	5,301,121	-	5,301,121
International Equity – Developed	-	5,962,241	-	5,962,241
Fixed Income – High Yield	-	3,095,615	-	3,095,615
Total Common Collective Trusts	-	20,022,804	-	20,022,804
Registered Investment Company:				
Real Asset	-	5,935,214	-	5,935,214
International Equity – Emerging Markets	-	1,973,956	-	1,973,956
Fixed Income High Yield	-	1,815,405	-	1,815,405
Total Registered Inv. Company	-	9,724,575	-	9,724,575
Partnership/Joint Venture Interest:				
Real Estate	-	-	4,476,264	4,476,264
Hedge Fund of Funds	-	-	1,925,627	1,925,627
Private Equity	-	-	522,058	522,058
Private Debt	-	-	1,364,897	1,364,897
Cash Equivalents and Receivables for				
Securities Sold	-	(13,695)	-	(13,695)
Total Plan Assets	\$ -	\$ 29,713,684	\$ 8,288,846	\$ 38,002,530

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – PENSION PLANS (Continued)

The changes in assets measured at fair value for which the Plan has used Level 3 inputs to determine fair value are as follows for the year ended December 31, 2016:

	<u>Level 3 Reconciliation</u>				Balance, December 31, 2016	Change in Unrealized Gain (Loss) for Investments Still Held at December 31, 2016
	Balance, January 1, 2016	Advisory, Management and Performance Fees	Investment Income	Realized and Unrealized Gains		
Real Estate/Hedge Funds/ Private Debt	<u>\$ 7,240,801</u>	<u>\$ (80,043)</u>	<u>\$ 361,943</u>	<u>\$ 766,145</u>	<u>\$ 8,288,846</u>	<u>\$ 130,701</u>

The Plan's financial assets measured at fair value on a recurring basis as of December 31, 2015 were classified in the tables below in one of the three categories as defined above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common/Collective Trusts:				
Domestic Equity – Large Cap	\$ -	\$ 7,227,733	\$ -	\$ 7,227,733
Domestic Equity – Small Cap	-	4,676,727	-	4,676,727
International Equity – Developed	-	5,246,181	-	5,246,181
Fixed Income – High Yield	-	6,638,637	-	6,638,637
Total Common Collective Trusts	-	<u>23,789,278</u>	-	<u>23,789,278</u>
Registered Investment Company:				
Real Asset	-	1,772,364	-	1,772,364
International Equity – Emerging Markets	-	2,691,875	-	2,691,875
Fixed Income High Yield	-	1,704,789	-	1,707,789
Total Registered Inv. Company	-	<u>6,169,028</u>	-	<u>6,169,028</u>
Partnership/Joint Venture Interest:				
Real Estate	-	-	4,225,488	4,225,488
Hedge Fund of Funds	-	-	1,890,677	1,890,677
Private Debt	-	-	1,124,636	1,124,636
Cash Equivalents and Receivables for Securities Sold				
	<u>59</u>	<u>-</u>	<u>-</u>	<u>59</u>
Total Plan Assets	<u>\$ 59</u>	<u>\$ 29,958,306</u>	<u>\$ 7,240,801</u>	<u>\$ 37,199,166</u>

The changes in assets measured at fair value for which the Plan has used Level 3 inputs to determine fair value are as follows for the year ended December 31, 2015:

	<u>Level 3 Reconciliation</u>				Balance, December 31, 2015	Change in Unrealized Gain (Loss) for Investments Still Held at December 31, 2015
	Balance, January 1, 2015	Advisory, Management and Performance Fees	Investment Income	Realized and Unrealized Gains		
Real Estate/Hedge Funds/ Private Debt	<u>\$ 6,672,282</u>	<u>\$ (49,818)</u>	<u>\$ 297,554</u>	<u>\$ 320,783</u>	<u>\$ 7,240,801</u>	<u>\$ 292,440</u>

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – PENSION PLANS (Continued)

Public Health Solutions' policy is to recognize transfers in and transfers out as of the beginning of the reporting period of the event or change in circumstance that caused the transfer. There was no transfer between levels as of December 31, 2016 and 2015.

In determining fair value, the Plan utilizes valuation techniques that maximize the use of observable inputs, such as prices and other relevant information generated by market transactions involving identical or comparable assets ("market approach"), and minimize the use of unobservable inputs to the extent possible, and also considers counterparty credit risk.

The following is a description of the valuation methodology used for assets at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Common/Collective Trusts:

The Plan's interests in the common/collective trusts are valued using the net asset value ("NAV") provided by the administrator of the trust and are based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding.

Registered Investment Companies:

The investments in registered investment companies are valued at the NAV of shares held by the Plan at year-end as provided by the investment manager. The underlying investments are generally valued using market quotations or prices obtained from independent pricing services.

Partnership/Joint Venture Interests and Hedge Fund of Funds:

The fair value of the investments in partnership/joint venture interests and hedge fund of funds is provided by the general partner or fund manager, and may be based on historical cost, appraisals, obtainable prices for similar assets or other estimates.

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

Redemption terms vary among the funds ranging to a maximum requirement of 60 days' notice. There were no redemption restrictions as of December 31, 2016 and 2015.

There are no unfunded commitments at December 31, 2016 and 2015.

Public Health Solutions plans to contribute approximately \$1,550,000 in either cash or cash and credits to fund the Plan in 2017.

Other Plans

In an effort to help stabilize future pension costs, Public Health Solutions' Board of Directors froze the defined benefit plan as of December 31, 2006, and a new defined contribution plan, the Retirement Savings Plan, was established for employees effective January 1, 2007.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – PENSION PLANS (Continued)

The Retirement Savings Plan is a self-directed 403(b) plan open to all non-union employees. Under the Retirement Savings Plan's provisions, Public Health Solutions contributes a percentage of eligible pay, on a sliding scale based on years of service in the form of basic and transition funds, and matches employee contributions to a maximum of two percent of pay. For the years ended December 31, 2016 and 2015, Public Health Solutions contributed \$1,061,373 and \$916,681, respectively, to the Retirement Savings Plan. Employees vest in the employer match after three years of service. The Retirement Savings Plan offers a variety of investment choices including a range of lifecycle funds and is fully portable. All of the Retirement Savings Plan's assets, which totaled \$32,576,126 and \$30,583,193, respectively, on December 31, 2016 and 2015, are administered by Vanguard in 2016.

Effective January 1, 1978, Public Health Solutions adopted a 403(b) Tax Deferred Annuity ("TDA") Plan for all employees. The TDA is funded solely by employee contributions. In conjunction with the opening of the Retirement Savings Plan, the TDA was closed to additional active employee contributions effective January 1, 2007. All of the TDA's assets, which totaled \$13,234,466 and \$13,034,823 respectively, on December 31, 2016 and 2015, are administered by TIAA-CREF, Mutual of America, and Mass Mutual (formerly The Hartford).

Effective April 7, 2003, Public Health Solutions adopted a nonqualified 457(b) Deferred Compensation Plan for highly compensated employees. The Plan is funded solely by employee contributions. All of the Plan's assets, which totaled \$718,239 and \$856,716, respectively, on December 31, 2016 and 2015, are administered by TIAA-CREF and Vanguard.

During the years ended December 31, 2016 and 2015, Public Health Solutions contributed \$70,599 and \$65,603, respectively, into a multi-employer defined contribution pension plan for all union employees.

NOTE 6 – LINE OF CREDIT

At December 31, 2016 and 2015, Public Health Solutions had a \$5 million line of credit with a financial institution. The line of credit had outstanding balances of \$1,650,000 and \$3,400,000 at December 31, 2016 and 2015, respectively. The line expires on September 13, 2017 and is collateralized by Public Health Solutions' receivables, and carries interest at one-quarter percent below the Prime Rate (amounting to an interest rate of 3.50% and 3.25% as of December 31, 2016 and 2015, respectively). Management expects to renew the line of credit upon expiration. Interest expense incurred for the line of credit amounted to \$94,209 and \$54,770 for the years ended December 31, 2016 and 2015, respectively. As of June 20, 2017, there was \$1,650,000 borrowed.

NOTE 7 – RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 amounted to \$91,847 and \$393,046, respectively. The funds were received from donors to be used to support Public Health Solutions' programs.

Net assets released from restrictions for the years ended December 31, 2016 and 2015 were released by incurring expenses satisfying the program restrictions and the expiration of time restrictions specified by the donors.

Endowment net assets consist of donor-restricted funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on existence or absence of donor imposed restrictions. See Note 21 for how Public Health Solutions maintains its net assets.

Public Health Solutions adheres to the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). Public Health Solutions recognizes that NYPMIFA permits the Board of Directors to appropriate for expenditure all earnings of endowment funds (both realized and unrealized) with a presumption of prudence to a ceiling of 7% annually based on a quarterly rolling five year average of the fair value of the endowment funds. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected in temporarily restricted until appropriated.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 7 – RESTRICTED NET ASSETS (Continued)

Public Health Solutions' Board has interpreted NYPMIFA as allowing the entity to appropriate for expenditure or accumulate so much of an endowment fund as the entity determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

The objective of Public Health Solutions is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk investments that will provide a predictable stream of funding. Even though the donor did not restrict the earnings of the endowment, Public Health Solutions records earnings as temporarily restricted until appropriated by the Board for expenditure pursuant to U.S. GAAP.

In accordance with U.S. GAAP, organizations are required to disclose any deterioration of the fair value of assets associated with donor-restricted endowment funds that fall below the level the donor requires the organization to retain in perpetuity. Public Health Solutions has not incurred such deficiencies in its endowment funds as of December 31, 2016.

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	Unappropriated Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 927	\$ 264,603	\$ 265,530
Contribution	-	52,180	52,180
Interest income	<u>1,855</u>	<u>-</u>	<u>1,855</u>
Endowment net assets, end of year	<u>\$ 2,782</u>	<u>\$ 316,783</u>	<u>\$ 319,565</u>

NOTE 8 – LEASE COMMITMENTS

Public Health Solutions holds 16 operating lease commitments (one for administrative offices and 15 for project services) that have expiration dates through 2031. The following is a yearly schedule of future minimum rental commitments under these leases:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 4,822,039
2018	4,796,476
2019	4,710,302
2020	4,682,257
2021	4,635,794
Thereafter	<u>10,454,246</u>
Total	<u>\$ 34,101,114</u>

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 8 – LEASE COMMITMENTS (Continued)

Public Health Solutions anticipates that as leases expire new leases will be entered into at rentals which are not less than those previously paid for the equivalent facilities. Rent expense totaled approximately \$5,229,000 and \$5,430,000 in 2016 and 2015, respectively.

NOTE 9 – CONTINGENCIES

- A. Grant awards received from governmental agencies provide grantors the right to audit transactions charged to projects and services rendered by Public Health Solutions with right of reimbursement. No audits were conducted in 2016.
- B. In the normal course of its operations, Public Health Solutions is a defendant or co-defendant in various legal proceedings, including medical malpractice and employment claims. While the ultimate outcomes of such proceedings cannot be determined with certainty, Management does not expect the resolution of the legal proceedings brought against it to have a material adverse effect on Public Health Solutions' financial position.

At the end of 2016, there were three pending lawsuits alleging malpractice by Public Health Solutions' MIC program's prenatal care services. In each of these cases, the professional medical services at MIC were provided pursuant to an Agreement between Public Health Solutions and a hospital, requiring the hospital to indemnify Public Health Solutions for the actions of the hospitals' professionals. One case involves still birth, another is a wrongful death action brought on behalf of the decedent MIC patient and the third is a case alleging untreated fetal distress. The case involving still birth is currently at the end of the discovery phase. The case involving wrongful death was scheduled for trial on January 30, 2017 but it has been delayed and is not yet rescheduled. The case involving fetal distress has been settled as of April 12, 2017 and PHS is responsible for the \$25,000 self-insured retention deductible. The outside attorneys representing Public Health Solutions in these matters have opined that recoveries, if any, would be below our insurance limits.

Additionally, on March 30, 2017, Public Health Solutions filed a Settlement Agreement in the Supreme Court of the State of New York related to a class action lawsuit alleging unpaid overtime. The lawsuit was brought by an employee in Public Health Solutions' Early Intervention Service Coordination program. The parties agreed to settle. The settlement is on a "claims made" basis where claimants are required to opt-in and submit verified claims in order to participate in the settlement. The total amount Public Health Solutions will be required to pay will depend on the number of claims submitted which is indeterminate. After PHS' \$75,000 deductible, PHS' insurance will cover up to \$150,000 of the defense costs.

- C. Effective July 1, 2010, Public Health Solutions changed its employee health insurance program from an indemnification plan to a self-insured plan. Under self insurance, Public Health Solutions pays administrative fees, stop-loss insurance premiums, and the actual cost of claims to the plan's third-party administrator. Claim costs are capped under the terms of the stop-loss protection. However, there are typically other assets and liabilities to consider in evaluating a self-insured plan's total run-out costs. These include the imprest balance or letter of credit, pharmacy rebate accruals and run-out cost of immature administrative fees. In the case of Public Health Solutions however, there are no pharmacy rebates paid to the plan sponsor and the administrative fee is mature, leaving Public Health Solutions with no administrative cost liability in the event of plan termination. As of December 31, 2016 and 2015, the plan's third-party administrator was holding a letter of credit of \$63,500 as collateral for the imprest balance. Such letter of credit was secured by certificates of deposit held by Public Health Solutions.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 – CONTINGENCIES (Continued)

The plan's cost also incorporates a health insurance reserve, which is an estimate of incurred but unreported medical claims. The reserve estimate, developed by Public Health Solutions' benefits consultant's actuary, is based on a chain ladder approach, wherein historical claim payout patterns were evaluated and averaged in order to estimate the outstanding liability of claims incurred prior to year-end. The estimated loss reserve of approximately \$576,000 and \$589,000 as of December 31, 2016 and 2015 respectively, is included in accounts payable and accrued liabilities in the accompanying financial statements. Public Health Solutions intends to continue monitoring claims experience, claims cost, and the adequacy of the reserve requirement.

- D. Public Health Solutions believes it has no uncertain income tax positions as of December 31, 2016 and 2015 in accordance with Accounting Standards Codification ("ASC") Topic 740 ("Income Taxes"), which provides standards for establishing and classifying any tax provisions for uncertain tax positions. Public Health Solutions is no longer subject to federal or state and local income tax examinations by tax authorities for years ended before 2013.

NOTE 10 – RELATED PARTY TRANSACTIONS

As a major player in New York City's public health arena, Public Health Solutions seeks and obtains Board of Director candidates from a wide range of hospitals, universities and other New York City area organizations that provide health services or are otherwise connected to the public health field. In addition, Article 1, Sections 2 and 4 of Public Health Solutions' by-laws mandate the appointment of two local public health officials as ex-officio Directors; the Commissioner of the New York City Department of Health, and the President of the New York City Health & Hospitals Corporation. Together, all of these individuals bring indispensable skills and expertise to Public Health Solutions' Board of Directors. However, due to the broad scope of services Public Health Solutions provides, Public Health Solutions has business arrangements with certain public agencies and private organizations where the ex-officio Directors and certain other Directors are agency heads or key employees.

The total amount contracted with such agencies and organizations approximated \$195 million and \$146 million in 2016 and 2015, respectively. Contracts with local government agencies are awarded in accordance with rigorous government procurement regulations. The award of contracts to Director and ex-officio Director-affiliated organizations comply with Public Health Solutions' purchasing procedures; Directors and ex-officio Directors play no role in the process in either their organizational or directorship capacities. Management believes that Public Health Solutions is in full compliance with its comprehensive conflict of interest policy.

NOTE 11 – SUBSEQUENT EVENTS

- A. Management has evaluated events subsequent to the date of the statement of financial position through June 20, 2017, the date the financial statements were available to be issued.

**PUBLIC HEALTH SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 11 – SUBSEQUENT EVENTS (Continued)

- B. On February 14, 2017, after over 25 years of providing widely-recognized early intervention services, Public Health Solutions' Board of Directors voted to close the organization's Early Intervention Service Coordination (EISC) program. The New York State Department of Health's (DOH) fee structure for coordination activities is set so low that it became increasingly impossible for Public Health Solutions, which is a service coordination-only provider, to cover the costs of operating the program. Public Health Solutions' program, unlike other New York State Early Intervention (EI) organizations, provides only service coordination and then refers patients to other providers for evaluation and intervention services. This is an anomaly in the EI sphere, where virtually all of the other EI organizations provide both coordination and the actual intervention services. Generally, providers lose money on service coordination, but make up for the losses by profits earned on evaluation and intervention services which are more richly reimbursed by DOH. Public Health Solutions' management, however, has always assiduously avoided the inherent conflict of interest of referring patients to its own evaluation and intervention providers. EISC is a fee-for-service program which bills DOH for eligible 15-minute work units. The State's current \$18.00 per work-unit billing rate increased by only \$0.75 since 1994, an effective 4.3% rate increase during a period when the CPI had risen 61%. Further, the State places numerous restrictions on the work products that are eligible to be billed. Management's appeals directly to DOH to increase the rates, revise the payment structure and make more of the service coordinators' tasks eligible for payment have been largely unsuccessful, and despite management's years-long efforts fine-tuning operations, and streamlining work processes, Public Health Solutions has been frustrated in all its attempts to make the program financially viable. Starting in 2015 it became clear that the EISC program could no longer cover its operating costs, prompting management to begin to seriously explore program closure options. In 2016 a Board of Directors EI Task Force, consisting of Board representatives with financial and programmatic expertise, was convened to review and monitor the EI situation. The Task Force, in conjunction with the Board Finance Committee, recommended closure which was then approved by the full Public Health Solutions' Board. Management anticipates that EISC program operations will result in an operating deficit in 2017, however, it is confident that any such deficit and resulting cash outlays can be covered with economic resources available to the organization, and will not result in any infringement on Public Health Solutions' ability to continue to support its mission in 2017 or succeeding fiscal periods. The EISC program will be closed as of August 31, 2017.

**PUBLIC HEALTH SOLUTIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
U.S. Department of Health and Human Services:				
Public Health Emergency Preparedness: Emergency Preparedness NYCDOHMH PHPR Zika Project	93.069		\$ 16,925,800 <u>233,458</u> 17,159,258	\$ 9,484,365 <u>-</u> 9,484,365
Adult Viral Hepatitis Prevention and Control: Perinatal Hepatitis B Prevention Auxiliary Perinatal Hepatitis B Prevention Program	93.270		3,130 <u>72,267</u> <u>75,397</u>	- <u>-</u> <u>-</u>
Family Planning Services : Family Planning Services - Title X Routine HIV Testing, HIV Care and Treatment Enhancing Links Primary Care	93.217		3,782,745 374,519 <u>64,580</u> <u>4,221,844</u>	1,626,712 259,715 <u>-</u> <u>1,886,427</u>
Drug Abuse National Research Service Awards for Research Training: Behavioral Science Training	93.279		<u>387,933</u>	<u>-</u>
National Bioterrorism Hospital Preparedness Program: Hospital Preparedness Program - HPP	93.889		<u>8,561,904</u>	<u>5,946,718</u>
Mental Health Research Grants: Scale-up of an Internet-Delivered Randomized Controlled Trial for HIV+Men	93.242		559,027	9,299
Pass-Through from New York City Department of Health & Mental Hygiene: Mental Health Research Grants: CHORDS NIMH	93.242	N/A	<u>20,000</u> <u>579,027</u>	<u>20,000</u> <u>29,299</u>
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF): PPHF 2014: NYCDOHMH Enhance an IIS to Interface with VTRCKS PPHF 2014: NYCDOHMH Immunization Infrastructure Enhancements to Meet Interoperability Requirements AFIX Assessments Standards for Adult Immunization	93.733		258,449 1,042,044 87,712 <u>288,019</u> <u>1,676,224</u>	- - - <u>-</u> <u>-</u>
Healthy Start Initiative: Healthy Start Initiative	93.926		<u>705,254</u>	<u>419,663</u>
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements PHEP - Supplemental Ebola Response	93.074		<u>2,352,914</u>	<u>20,082</u>
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities NYC DOHMH HPP Ebola Part A NYC DOHMH HPP Ebola Part B	93.817		4,573,700 <u>223,402</u> <u>4,797,102</u>	2,074,422 <u>97,423</u> <u>2,171,845</u>
Preventive Health Services - Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education: HIV Prevention Training Center	93.941		194,140	161,214
Pass-Through from Emory University: HIV Demonstration, Research, Public and Professional Education Projects Mobile Messaging Intervention	93.941	T459517	<u>87,303</u> <u>281,443</u>	<u>-</u> <u>161,214</u>

**PUBLIC HEALTH SOLUTIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
Pass-Through from New York City Department of Health and Mental Hygiene: HIV Emergency Relief Project Grants: Ryan White HIVCS	93.914	H89HA00015-24-00	\$ 95,028,078	\$ 57,829,675
HIV Prevention Activities - Health Department Based: HIV Prevention Program	93.940	2U62PS223460-06-2	18,389,069	7,973,847
HIV Prevention Activities_Non-Governmental Organization Based Capacity Building Assistance for High-Impact HIV Prevention	93.939	1U65PS00451-01 (PS14-1403)	587,705	-
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance HIV Prevention Program	93.944	2U62PS223460-06-2	6,161	-
Preventive Health Services_Sexually Transmitted Diseases Control Grants HIV Prevention Program	93.977	2U62PS223460-06-2	36,967	-
TANF Cluster: Temporary Assistance for Needy Families: PHS Nurse Family Partnership	93.558	15FN000301R0X00	318,750	-
Medicaid Cluster: Pass-Through from New York State Department of Health: Medical Assistance Program: IPA Navigator Program MICH Consumer Assistance for Aged, Blind and Disabled)	93.778	C028889 C028971 C029904	388,000 269,059 1,212,391 1,869,450	- - 1,080,416 1,080,416
Children's Health Insurance Program: IPA Navigator Program	93.767	C028889	66,514	-
Maternal and Child Health Services Block Grant to the States: MIC-Women's Health Service MCH	93.994	C027053	192,629	-
Pass-Through from Research Foundation of the State University of New York: Maternal and Child Health Services Block Grant to the States: SIDS Info Counseling	93.994	RF#1091697/2/5596 RF#1114596-3-6600 RF#69296-2-112120	196,126 388,755	- -
Pass-Through from Fund for Public Health in New York: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants: FPHNY-Tobacco Control Reimbursement Implementing Healthy Eating and Active Living Interventions in Corona and Surrounding Neighborhoods	93.531	80404 80420	18,603 449 19,052	- - -
Partnerships to Improve Community Health Partnership to Improve Community Health	93.331	80726	119,424	-
Pass-Through from Community Health Network: Special Projects of National Significance: TWEET Care	93.928	N/A	32,706	-
Pass-Through from General Hospital Corporation : Centers for Disease Control and Prevention-Investigation and Training Assistance: Global Travepinet	93.283	224928	16,241	-
Pass-Through from The Trustees of Columbia University Minority Health and Health Disparities Research: Culture and HIV Risk in a Diverse Population	93.307	GG010626-01	25,484	-
Nursing Research VIP HANA	93.361	GG012114-01	24,326	-
Pass-Through from National Association of Countries Medical Reserve Corps Small Grant Program: Medical Reserve Corps-MRC	93.008	253	707	-

**PUBLIC HEALTH SOLUTIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
Pass-Through from New York Blood Center, Inc. Child Health and Human Development Extramural Research: Using Technology to Match Young Black MSM to HIV Testing Options	93.865	NIH000262	\$ 50,459	\$ -
Pass-Through from National Development and Research Child Health and Human Development Extramural Research: Impact of Abuse Men's Risk Behavior	93.865	N/A	<u>12,882</u> <u>63,341</u>	<u>-</u> <u>-</u>
Pass-Through from Greater Jamaica Development Corporation. Community Services Block Grant_Discretionary Awards: Queens Healthy Store Initiative	93.570	90EE1027-01-00	<u>175,834</u>	<u>-</u>
Pass-Through from Emory University Prevention of Disease, Disability, and Death by Infectious Diseases Emory Camp	93.084	N/A	913	-
Pass-Through from The General Hospital Corporation Prevention of Disease, Disability, and Death by Infectious Diseases Global Travepinet	93.084	N/A	<u>3,474</u> <u>4,387</u>	<u>-</u> <u>-</u>
Total Funded by U.S. Department of Health and Human Services:			<u>157,971,251</u>	<u>87,003,551</u>
U.S. Department of Agriculture:				
Pass-Through from New York State Department of Health: Special Supplemental Nutrition Program for Women, Infants and Children: Women, Infants & Children Supplemental Food Program Women, Infants & Children Vendor Consolidation Program WIC Noncash Assistance	10.557	C025785 C025816 C025785	8,838,890 1,398,467 <u>31,416,935</u> <u>41,654,292</u>	- - - -
Pass-Through from NYU School of Medicine Agriculture and Food Research Initiative: Starting Early: Obesity Prevention	10.310	10-02175	<u>23,561</u>	<u>-</u>
Total Funded by U.S. Department of Agriculture			<u>41,677,853</u>	<u>-</u>
U.S. Department of Labor:				
Pass-Through from New York State Department of Labor: Compensation and Working Conditions: Fatal Occupational Injuries	17.005	C015071	<u>80,982</u>	<u>-</u>
Total Funded by U.S. Department of Labor			<u>80,982</u>	<u>-</u>
U.S. Department of Housing and Urban Development				
Pass-Through from New York City Department of Health: Housing Opportunities for Persons with AIDS - HOPWA HOPWA Transitional Housing	14.241	2U62PS223460-06-2	<u>2,798,956</u>	<u>1,570,177</u>
Total Funded by U.S. Department of Housing and Urban Development			<u>2,798,956</u>	<u>1,570,177</u>
Amounts Provided to Subrecipients				<u>\$ 88,573,728</u>
Total Expenditures of Federal Awards			<u>\$ 202,529,042</u>	

**PUBLIC HEALTH SOLUTIONS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Public Health Solutions (the "Organization") for the year ended December 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

The schedule of expenditures of federal awards includes Women, Infants and Children ("WIC") Supplemental Food Program checks redeemed totaling \$31,416,935, which are not recognized as revenue or expense in Public Health Solutions' financial statements. Such amount represents checks distributed directly by the New York State Department of Health to clients screened at Public Health Solutions' WIC clinic sites.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting except for amounts passed through to subrecipients which are reported on a cash basis. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.

NOTE 3 – INDIRECT COST RATES

The Organization has a federal approved indirect cost rate and therefore cannot use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors of
Public Health Solutions

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Health Solutions (the "Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Marks Paneth LLP in black ink.

New York, NY
June 20, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

The Board of Directors of
Public Health Solutions

Report on Compliance for Each Major Federal Program

We have audited Public Health Solutions' (the "Organization") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("GAS"), and the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



New York, NY
September 22, 2017

**PUBLIC HEALTH SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Section I—Summary of Auditors' Results

Financial Statements

Type of Auditors' report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	<u> </u> Yes	<u> X </u> No

Identification of major programs:

- CFDA 93.217 – Family Planning Services
- CFDA 93.889 – National Bioterrorism Hospital Preparedness Program
- CFDA 93.914 – HIV Emergency Relief Project Grant

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$3,000,000</u>	
Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u> No

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

No matters were reported.

**PUBLIC HEALTH SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Prior Year Findings:

There were no findings in the prior year audit.