

OBICI HEALTHCARE FOUNDATION, INC.

FINANCIAL REPORT

March 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Obici Healthcare Foundation, Inc.
Suffolk, Virginia

We have audited the accompanying financial statements of Obici Healthcare Foundation, Inc., which comprise the statement of financial position as of March 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Obici Healthcare Foundation, Inc. as of March 31, 2019, 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.

Other Matters

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Obici Healthcare Foundation, Inc. adopted FASB ASU2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. Our opinion is not modified with respect to this matter.

Adjustments to Prior Period Financial Statements

The financial statements of Obici Healthcare Foundation, Inc. as of March 31, 2018 were audited by other auditors whose report dated September 5, 2019, expressed an unmodified opinion on those financial statements. As discussed in Note 2 to the financial statements, the Foundation has adjusted its 2018 financial statements to retrospectively apply the adoption of FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to retrospectively apply the change in the accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Obici Healthcare Foundation, Inc. 2018 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 25, 2019

OBICI HEALTHCARE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,919,595	\$ 9,000,680
Accrued interest and dividends receivable	11,445	11,085
Refundable unrelated business income and excise taxes	66,730	49,000
	<hr/>	<hr/>
Total current assets	5,997,770	9,060,765
INVESTMENTS (Note 4)	114,000,978	111,954,438
PROPERTY AND EQUIPMENT, net (Note 5)	1,499,577	1,585,015
OTHER ASSETS (Note 7)	761,325	698,206
	<hr/>	<hr/>
	<u>\$ 122,259,650</u>	<u>\$ 123,298,424</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 31,855	\$ 167,509
Grants payable	1,275,226	1,481,665
Current portion of long-term debt (Note 8)	86,815	83,785
	<hr/>	<hr/>
Total current liabilities	1,393,896	1,732,959
LONG-TERM DEBT, net of unamortized debt issuance costs - less current portion (Note 8)	1,117,843	1,202,185
DEFERRED FEDERAL EXCISE TAXES (Note 6)	575,969	657,236
	<hr/>	<hr/>
Total liabilities	3,087,708	3,592,380
NET ASSETS WITHOUT DONOR RESTRICTIONS	<hr/>	<hr/>
	119,171,942	119,706,044
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 122,259,650</u>	<u>\$ 123,298,424</u>

The Notes to Financial Statements are an integral part of these statements.

OBICI HEALTHCARE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE		
Investment return, net	\$ 4,311,261	12,480,052
OTHER GAIN (LOSS)	<u>(1,799)</u>	<u>599</u>
Total revenue, gains (losses) and other support	<u>4,309,462</u>	<u>12,480,651</u>
EXPENSES (Note 9)		
Programs	4,201,898	3,438,890
Administrative	<u>659,279</u>	<u>684,266</u>
	4,861,177	4,123,156
PROVISION FOR UNRELATED BUSINESS INCOME AND EXCISE TAXES (BENEFIT) (Note 6)	<u>(17,613)</u>	<u>315,009</u>
Total expenses	<u>4,843,564</u>	<u>4,438,165</u>
Change in net assets	(534,102)	8,042,486
Net assets, beginning of year	<u>119,706,044</u>	<u>111,663,558</u>
Net assets, end of year	<u>\$ 119,171,942</u>	<u>\$ 119,706,044</u>

The Notes to Financial Statements are an integral part of these statements.

OBICI HEALTHCARE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (534,102)	\$ 8,042,486
Adjustments to reconcile net assets to net cash used by operating activities:		
Depreciation	98,190	101,048
Amortization of debt issuance costs	2,472	2,472
Loss on disposal of property and equipment	2,919	993
Net realized and unrealized gains on investments	(4,801,035)	(13,040,977)
Deferred federal excise taxes	(81,267)	68,964
Change in current assets and liabilities:		
Accrued interest and dividends receivable	(360)	(9,716)
Refundable unrelated business income and excise taxes	(17,730)	118,266
Other assets	(63,119)	22,466
Accounts payable and accrued expenses	(135,654)	126,562
Grants payable	(206,439)	(1,344,457)
	<u>(5,736,125)</u>	<u>(5,911,893)</u>
Net cash used by operating activities		
INVESTING ACTIVITIES		
Purchase of investments	(19,944,984)	(12,379,848)
Proceeds from sale of investments	22,699,479	24,658,036
Purchase of property and equipment	(15,670)	(10,266)
	<u>2,738,825</u>	<u>12,267,922</u>
Net cash provided by investing activities		
FINANCING ACTIVITIES		
Principal payments on long-term debt	(83,785)	(80,525)
	<u>(3,081,085)</u>	<u>6,275,504</u>
Net increase (decrease) in cash and cash equivalents		
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>9,000,680</u>	<u>2,725,176</u>
End of year	<u>\$ 5,919,595</u>	<u>\$ 9,000,680</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u>\$ 51,400</u>	<u>\$ 53,068</u>
Cash paid for excise taxes	<u>\$ 65,190</u>	<u>\$ 11,626</u>

The Notes to Financial Statements are an integral part of these statements.

OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

1. Organization and Nature of Activities

Obici Healthcare Foundation, Inc. (the Foundation) is a not-for-profit, nonstock health foundation incorporated in the Commonwealth of Virginia and organized as a private foundation since April 1, 2006. The Foundation provides assistance to those organizations working to meet community health needs in Suffolk, Virginia and surrounding communities, giving attention first to meeting unmet healthcare needs of the indigent and uninsured, and also including the support of programs which have been the primary purpose of preventing and reducing illness and disease. These activities are supported by income from the Foundation's investment portfolio.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Class of net assets

The Foundation reports its financial position according to two classes of net assets as follows:

Net assets with donor restrictions are net assets available for use in general operations and not subject to donor-imposed restrictions. Such net assets are available for any purpose consistent with the Foundation's mission.

Net assets with donor restrictions are net assets that are subject by donor-imposed restrictions.

The Foundation has no net assets with donor restrictions.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash held in checking accounts, money market investments and highly liquid investments with original maturities of three months or less.

Investments

Investments in equity securities with readily determinable fair values and all investments in exchange traded funds, equity and bond mutual funds are carried at fair value determined by quoted market prices in the accompanying statements of financial position. Nonreadily marketable investments, consisting primarily of investments in U.S. limited partnerships and corporations, foreign investment corporations and common collective trusts, are carried at net asset value (NAV) per share as the practical expedient estimate of fair value if a) the underlying investment manager's calculation of NAV is fair value based and b) the NAV has been calculated as of the Foundation's fiscal year end date. Accordingly, such carrying values could differ materially from the values that would have been used had a ready market for the investments existed. The net asset values provided by the managers are reviewed and evaluated by Foundation personnel for reasonableness.

(Continued)

OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Gains and losses on investments are recognized in the accompanying statements of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations. Investment transactions are recorded on a trade-date basis. Dividends are reported on the ex-dividend date. In computing the realized and unrealized gains or losses, cost has been determined on the specific identification method.

Dividend, interest and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the income received is limited by donor-imposed restrictions.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs are reported as a component of interest expense and is computed using the effective interest method.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the depreciable assets, which range from three to forty-five years. Routine maintenance and repairs are charged to expense when incurred.

Grant expenditures

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At March 31, 2019 and 2018, all grants payable were current liabilities.

Income taxes

The Foundation has been recognized by the Internal Revenue Service as tax exempt under Section 501 (c)(3) of the Internal Revenue Code of 1986 (the Code) and as a private foundation under Section 509(a) of the Code. In accordance with the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined by the Act. The Act also requires that certain minimum distributions be made each year. The amount of these distributions is determined in accordance with a specified formula. Based on this formula, qualifying distributions in excess of the minimum required were made during 2019 and 2018.

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OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Concentrations of credit risk

Financial instruments which potentially subject the Foundation to concentrations of credit and/or market risk consist principally of cash and cash equivalents and investments. The Foundation places its temporary cash and money market accounts with creditworthy, high quality financial institutions. A significant portion of the funds are not insured by the Federal Deposit Insurance Corporation.

The Foundation has significant investments in equity securities and nonreadily marketable investments. Investments are made primarily by investment managers engaged by the Foundation, and the investments are monitored by management and the Investment Committee of the Board of Directors of the Foundation. As part of the fiduciary oversight of the investments, the Foundation's portfolio has been diversified in various investment categories in accordance with the Foundation's investment policy.

Adoption of accounting pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this ASU affect not-for-profit entities and the users of their general purpose financial statements. The Foundation adopted this ASU retrospectively during 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources. IN addition, certain direct investment expenses were reclassified out of administrative expenses into investment return, net in the statement of activities. Total net assets was not impacted as a result.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. Total net assets and change in net assets are unchanged due to these reclassifications.

Subsequent events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 25, 2019, the date the financial statements were available to be issued.

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OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

3. Liquidity and Availability of Resources

Financial assets available for general expenditure that are readily available within one year of March 31, 2019 include:

Cash	\$ 5,919,595
Actively traded investments	<u>7,741,825</u>

Financial assets available to meet cash needs for general expenditures within one year \$ 13,661,420

The Foundation must annually pay out a minimum amount of 5% of the average fair value of its investment assets for the preceding year for charitable and administrative purposes in accordance with private foundation Internal Revenue Service requirements. The Foundation investment objectives have been aligned to meet the minimum distribution requirement. Also, the Foundation has additional investments that could provide liquidity, if necessary, but, has no plans to use those investments for operations in the near term.

4. Investments

The Foundation's investments at March 31, 2019 and 2018, are as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Readily marketable investments:				
US equity securities	\$ 6,239,516	\$ 6,426,276	\$ 6,464,026	\$ 6,966,415
Exchange traded funds	2,047,284	1,315,549	2,499,976	1,840,562
Nonreadily marketable investments:				
Limited partnership and corporations	36,929,729	47,942,047	32,150,969	47,548,059
Foreign investment corporations	<u>40,464,921</u>	<u>58,317,106</u>	<u>37,977,664</u>	<u>55,599,402</u>
	<u>\$ 85,681,450</u>	<u>\$114,000,978</u>	<u>\$ 79,092,635</u>	<u>\$ 111,954,438</u>

Change in net unrealized gains included in change in net assets relating to assets held at March 31, 2019 and 2018 were (\$4,542,275) and \$3,448,204, respectively.

Fair value measurements

Assets and liabilities recorded at fair value in the statements of financial position are categorized based upon a three-tier fair value hierarchy. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These tiers include the following:

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OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

4. Investments (Continued)

Fair value measurements (Continued)

Level 1 Inputs to the valuation methodology are quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement of the assets or liabilities.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. Care should be exercised in deriving conclusions about the Foundation's financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset and does not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values of equity securities and exchange traded funds have been determined by the Foundation from observable market quotations. The Foundation's interest in the shares of common collective trusts, total partnerships and corporations and foreign investment corporations is recorded at the net asset value per share, as provided by external investment managers as the practical expedient estimate of fair value.

Certain investment managers of nonreadily marketable investments use investment strategies and techniques designed to achieve higher investment returns with lower volatility and low correlation to major market indices. These strategies and techniques, which include the use of leverage, futures and forward contracts, option agreements and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the Foundation's investment portfolio. At March 31, 2019 and 2018, the Foundation had unfunded commitments related to limited partnerships and corporations currently invested in of \$15,178,006 and \$19,007,318, respectively, and committed to, but not invested in of \$2,600,000 and \$2,500,000, respectively. Nonreadily marketable investments also contain liquidity restrictions, which are as follows at March 31, 2019 and 2018:

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OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

4. Investments (Continued)

Limited Partnerships and Corporations

At March 31, 2019, approximately 53% of these investments are eligible for redemption either on a daily, monthly or quarterly basis, subject to certain restrictions, which include a notice period of 48 hours to 60 days. Approximately 1% of these investments are subject up to a 3 year lock-up period. These redemption restrictions will lapse in December, 2019 but will automatically renew for another 3 year period unless the Foundation elects to withdraw interest. Approximately 46% of these investments cannot be redeemed during the life of the partnerships. Approximately 34% of these investments have remaining lives ranging from 1 to 6 years and the life is unknown for the remaining approximately 12% of these investments. When the underlying assets are sold, the proceeds, less any incentives due to the partnerships' general partner, are to be distributed to the investors.

At March 31, 2018, approximately 49% of these investments are eligible for redemption either on a daily, monthly or quarterly basis, subject to certain restrictions, which include a notice period of 48 hours to 60 days. Approximately 10% of these investments are subject up to a 3 year lock-up period. These redemption restrictions will lapse in December, 2019 but will automatically renew for another 3 year period unless the Foundation elects to withdraw interest. Approximately 41% of these investments cannot be redeemed during the life of the partnerships. Approximately 36% of these investments have remaining lives ranging from 1 to 7 years and the life is unknown for the remaining approximately 5% of these investments. When the underlying assets are sold, the proceeds, less any incentives due to the partnerships' general partner, are to be distributed to the investors.

Foreign Investment Corporations

At March 31, 2019, approximately 74% of these investments are eligible for redemption either on a monthly, quarterly, annual or bi-annual basis, subject to certain restrictions, which include a notice period of 30 to 120 days. Approximately 23% of these investments are subject to a 1 to 3 year lock-up period. One redemption restriction will lapse in February 2020, one in March 2020, and the others will lapse in April, 2019 but will automatically renew for another 3 year period unless the Foundation elects to withdraw its interest. Approximately 3% of these investments cannot be redeemed during the life of the partnership. The life of these investments is unknown at this time.

At March 31, 2018, approximately 85% of these investments are eligible for redemption either on a monthly, quarterly, annual or bi-annual basis, subject to certain restrictions, which include a notice period of 30 to 120 days. Approximately 14% of these investments are subject to a 2 to 3 year lock-up period. One redemption restriction will lapse in March 2020 and the others will lapse in April, 2019 but will automatically renew for another 3 year period unless the Foundation elects to withdraw its interest or lapse in January 2019. Approximately 1% of these investments cannot be redeemed during the life of the partnership. The life of these investments is unknown at this time.

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OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

4. Investments (Continued)

The following tables present the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of March 31, 2019 and 2018.

	2019			
	Fair Value Measurements at March 31 using			
	Level 1	Level 2	Level 3	Fair Value
US equity securities:				
Small cap equity securities	\$ 6,426,276	\$ -	\$ -	\$ 6,426,276
Total US equity securities	<u>6,426,276</u>	<u>-</u>	<u>-</u>	<u>6,426,276</u>
Exchange traded funds:				
Oil and gas exploration and production	<u>1,315,549</u>	<u>-</u>	<u>-</u>	<u>1,315,549</u>
Total exchange traded funds	<u>1,315,549</u>	<u>-</u>	<u>-</u>	<u>1,315,549</u>
Partnerships and corporations measured at net asset value: ^(a)				
International closed end funds	-	-	-	2,991,940
Global equity securities	-	-	-	8,139,759
Global equity fund of hedge funds	-	-	-	247,758
US corporate credit	-	-	-	6,621,122
US micro-cap equity securities	-	-	-	4,228,969
US opportunistic value	-	-	-	4,658,065
US investment grade government and corporate	-	-	-	10,011,825
Private equity	-	-	-	2,826,526
Resources	-	-	-	1,839,671
Frontier markets equity	-	-	-	438,495
Real estate	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,937,917</u>
Total partnerships and corporations	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,942,047</u>
Foreign investment corporations measured at net asset value: ^(a)				
ASEAN long-only equity	-	-	-	3,388,476
Brazil public/private equity	-	-	-	716,934
China long/short equity	-	-	-	3,568,473
Global long-only equity	-	-	-	8,484,561
Global distressed credit hedge	-	-	-	2,888,770
Global long/short equity hedge	-	-	-	9,523,222
Emerging markets long-only equity	-	-	-	1,994,887
European long-only equity	-	-	-	8,733,796
Japanese-focused long/short equity	-	-	-	3,323,419
Private equity	-	-	-	1,687,335
US long-only equity	-	-	-	1,833,663
US long/short opportunistic	-	-	-	7,030,738
US credit markets	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,142,832</u>
Total foreign investment corporations	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,317,106</u>
	<u>\$ 7,741,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$114,000,978</u>

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OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

4. Investments (Continued)

	2018			
	Fair Value Measurements at March 31 using			
	Level 1	Level 2	Level 3	Fair Value
US equity securities:				
Small cap equity securities	\$ 6,966,415	\$ -	\$ -	\$ 6,966,415
Total US equity securities	<u>6,966,415</u>	<u>-</u>	<u>-</u>	<u>6,966,415</u>
Exchange traded funds:				
Oil and gas exploration and production	<u>1,840,562</u>	<u>-</u>	<u>-</u>	<u>1,840,562</u>
Total exchange traded funds	<u>1,840,562</u>	<u>-</u>	<u>-</u>	<u>1,840,562</u>
Partnerships and corporations measured at net asset value: ^(a)				
International closed end funds	-	-	-	3,131,280
Global equity securities	-	-	-	10,999,998
Global equity fund of hedge funds	-	-	-	4,451,078
US corporate credit	-	-	-	8,141,889
US micro-cap equity securities	-	-	-	3,919,244
US opportunistic value	-	-	-	4,957,095
US investment grade government and corporate	-	-	-	5,231,975
Private equity	-	-	-	328,756
Resources	-	-	-	926,808
Frontier markets equity	-	-	-	524,596
Real estate	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,935,340</u>
Total partnerships and corporations	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,548,059</u>
Foreign investment corporations measured at net asset value: ^(a)				
ASEAN long-only equity	-	-	-	3,498,881
Brazil public/private equity	-	-	-	1,428,805
China long/short equity	-	-	-	4,351,861
Global long-only equity	-	-	-	9,593,459
Global distressed credit hedge	-	-	-	4,217,826
Global long/short equity hedge	-	-	-	7,617,778
European long-only equity	-	-	-	11,297,217
Private equity	-	-	-	695,327
US long-only equity	-	-	-	1,344,542
US long/short opportunistic	-	-	-	6,683,455
US credit markets	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,870,251</u>
Total foreign investment corporations	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,599,402</u>
	<u>\$ 8,806,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$111,954,438</u>

(a) In accordance with the amendments to Subtopic 820-10 from ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

5. Property and Equipment

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Building	\$ 1,616,468	\$ 1,616,468
Land improvements	432,748	432,748
Furniture and fixtures	186,052	179,343
Equipment	77,637	74,283
Land	102,507	102,507
Building improvements	<u>5,150</u>	<u>5,150</u>
	2,420,562	2,410,499
Accumulated depreciation	<u>(920,985)</u>	<u>(825,484)</u>
Property and equipment, net	<u>\$ 1,499,577</u>	<u>\$ 1,585,015</u>

Depreciation expense was \$98,190 and \$101,048 for 2019 and 2018, respectively.

6. Federal Excise and Unrelated Business Income Taxes

The Foundation is subject to an excise tax of 1% or 2% on its net investment income. The applicable excise tax rate is dependent upon the amount of qualifying distributions made by the Foundation and additional excise tax penalties may be assessed if certain minimum distributions are not made. The Foundation was subject to an excise tax rate of 2% for 2019 and 2018. A deferred federal excise tax liability is estimated based on cumulative net unrealized gains as of year-end.

The Foundation is also subject to unrelated business income tax (UBIT) on income from certain investments on both the federal and state level. The amount of UBIT incurred for 2019 and 2018 was \$-0-.

7. Art Collection

On April 1, 2006, Obici Health System contributed a collection of artwork to the Foundation appraised at approximately \$660,000. This amount is included as other assets on the statements of financial position.

8. Long-Term Debt

In 2010, the Foundation issued Economic Development Authority of the City of Suffolk Revenue Bonds (Obici Healthcare Foundation Inc.) Series 2010 in the amount of \$1,850,000. In January 2016, the bonds were reissued. The revised repayment schedule consists of monthly installments of principal and interest of \$11,107 and a final payment of \$701,608 due July 1, 2024. The note contains a fixed interest rate of 3.92% for the term of the bond. The bond is unsecured, however, any assets of the Foundation not already encumbered must be maintained free and clear of all liens, encumbrances and pledges. The bond also contains several financial covenants with which management determined the Foundation was in compliance at March 31, 2019 and 2018.

(Continued)

OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

8. Long-Term Debt (Continued)

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the long-term debt. Amortization of these costs of \$2,472 in both 2019 and 2018 are reported as a component of interest expense, which is included in program and administrative expenses on the statements of activities, over the term of the loan. Accumulated amortization was \$22,248 and \$19,776 at March 31, 2019 and 2018, respectively.

Future principal payments are as follows:

<u>Year Ending</u> <u>March 31,</u>	
2020	\$ 86,815
2021	90,372
2022	94,030
2023	97,836
2024	101,715
Thereafter	<u>736,426</u>
	1,207,194
Current portion	(86,815)
Unamortized debt issuance costs	<u>(2,536)</u>
	<u>\$ 1,117,843</u>

9. Presentation of Expenses

The cost of funding certain programs and other services of the Foundation are reported on a functional basis in the accompanying statements of activities. Accordingly, expenses have been classified among programs and administrative expenses. Program activities of the Foundation include activities that support the grant making process as well as the actual payment of grants.

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. Those expenses include communications, salaries and benefits, utilities, facility, portions of office expenses, depreciation and amortization, and interest on building loan. The expenses are allocated based on management's estimates of time and effort which correlates to the utilization of those expense categories.

(Continued)

OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019 and 2018

9. Presentation of Expenses (Continued)

The Foundation's functional expenses, displayed by natural expense classification, for the year ended March 31, 2019 is as follows:

	<u>Programs</u>	<u>Administrative</u>	<u>Total</u>
Program:			
Grant payments	\$ 3,380,960	\$ -	\$ 3,380,960
Program development	216,107	-	216,107
Communications	21,207	16,663	37,870
Salaries and benefits	449,896	347,811	797,707
Insurance	-	14,157	14,157
Utilities	11,635	9,142	20,777
Facility	2,493	58,384	60,877
Education and meeting	-	63,000	63,000
Office expenses	34,603	83,340	117,943
Depreciation and amortization	56,371	44,291	100,662
Other expenses:			
Interest on the building loan	<u>28,626</u>	<u>22,491</u>	<u>51,117</u>
	<u>\$ 4,201,898</u>	<u>\$ 659,279</u>	<u>\$ 4,861,177</u>

10. Retirement Plan

The Foundation has a qualified employee benefit 403(b) retirement plan intended to comply with all applicable federal laws and regulations, including the Code, as amended, and the Employee Retirement Income Security Act of 1974. The Foundation makes both matching and nonmatching discretionary contributions to the individual accounts of eligible employees. Contributions are based on compensation during the calendar year. The Foundation contributed \$31,045 and \$28,555 during 2019 and 2018, respectively. These amounts are included in programs and administrative expenses on the statements of activities.

11. Related Party Relationships

During both 2019 and 2018, the Foundation had banking and investment relationships with a financial institution for which a Board Member also served on the regional advisory board. All of the Foundations cash and money market accounts are held with this financial institution. The financial institution also serves as the custodian for the Foundation's investment portfolio. Management fees paid to the financial institution during 2019 and 2018 approximated \$98,000 and \$90,000, respectively.

During 2019, the Foundation awarded approximately \$235,000 in grants to related party organizations of various Board of Directors. These amounts are included in programs expense on the statements of activities. At March 31, 2019, there was approximately \$31,000 in grants payable related to these organizations.

(Continued)

OBICI HEALTHCARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

12. Subsequent Pronouncements

The FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update provides additional guidance on determining whether a contribution is considered conditional. The changes in this update could result in more grants being accounted for as conditional which impacts the timing of expense recognition for the Foundation. This ASU is effective for fiscal years beginning after December 15, 2019.