

Obici Healthcare Foundation, Inc.

Financial Statements

Years Ended March 31, 2017 and 2016

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Obici Healthcare Foundation, Inc., which comprise the statements of financial position as of March 31, 2017 and 2016, and the related statements of activities 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Obici Healthcare Foundation, Inc. as of March 31, 2017 and 2016, 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.

Dixon Hughes Goodman LLP

**Newport News, Virginia
August 30, 2017**

Obici Healthcare Foundation, Inc.
Statements of Financial Position
March 31, 2017 and 2016

| | <u>2017</u> | <u>As Adjusted 2016</u> |
|---|-----------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,725,176 | \$ 6,521,329 |
| Accrued interest and dividends receivable | 1,369 | 4,017 |
| Refundable unrelated business income and excise taxes | <u>167,266</u> | <u>-</u> |
| Total current assets | 2,893,811 | 6,525,346 |
| Investments (Note 4) | 111,191,651 | 97,566,706 |
| Property and equipment, net (Note 5) | 1,676,789 | 1,761,152 |
| Other assets (Note 7) | <u>720,672</u> | <u>725,257</u> |
| | <u>\$ 116,482,923</u> | <u>\$ 106,578,461</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 40,947 | \$ 351,319 |
| Healthcare grants payable | 2,826,122 | 1,292,351 |
| Current portion of long-term debt (Note 8) | <u>80,525</u> | <u>77,393</u> |
| Total current liabilities | 2,947,594 | 1,721,063 |
| Long-term debt, net of unamortized debt issuance costs - less current portion (Note 8) | 1,283,499 | 1,361,552 |
| Deferred federal excise taxes (Note 6) | <u>588,272</u> | <u>347,722</u> |
| Total liabilities | 4,819,365 | 3,430,337 |
| Unrestricted net assets | <u>111,663,558</u> | <u>103,148,124</u> |
| Total liabilities and net assets | <u>\$ 116,482,923</u> | <u>\$ 106,578,461</u> |

See accompanying notes.

Obici Healthcare Foundation, Inc.
Statements of Activities
Years Ended March 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Revenue, gains (losses) and other support: | | |
| Investment income: | | |
| Interest and dividends | \$ 54,582 | \$ 73,602 |
| Net realized and unrealized gains (losses) on investments | <u>16,417,043</u> | <u>(5,817,819)</u> |
| Investment income (loss) before investment fees | 16,471,625 | (5,744,217) |
| Investment fees | <u>(605,282)</u> | <u>(612,505)</u> |
| Investment income (loss), net | 15,866,343 | (6,356,722) |
| Other loss | <u>(412)</u> | <u>(535)</u> |
| Total revenue, gains (losses) and other support | <u>15,865,931</u> | <u>(6,357,257)</u> |
| Expenses: | | |
| Healthcare grants | 5,852,233 | 4,088,093 |
| Program and administrative | <u>1,172,558</u> | <u>1,496,286</u> |
| Total expenses | 7,024,791 | 5,584,379 |
| Provision for unrelated business income and excise taxes (Note 6) | <u>325,706</u> | <u>(31,867)</u> |
| Total expenses | <u>7,350,497</u> | <u>5,552,512</u> |
| Change in net assets | 8,515,434 | (11,909,769) |
| Net assets, beginning of year | <u>103,148,124</u> | <u>115,057,893</u> |
| Net assets, end of year | <u>\$ 111,663,558</u> | <u>\$ 103,148,124</u> |

See accompanying notes.

Obici Healthcare Foundation, Inc.
Statements of Cash Flows
Years Ended March 31, 2017 and 2016

| | <u>2017</u> | <u>As Adjusted 2016</u> |
|--|---------------------|-----------------------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ 8,515,434 | \$ (11,909,769) |
| Adjustments to reconcile net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 102,833 | 103,036 |
| Amortization of debt issuance costs | 2,472 | 2,472 |
| Loss on disposal of property and equipment | 1,734 | 3,085 |
| Net realized and unrealized (gains) losses on investments | (16,417,043) | 5,817,819 |
| Deferred federal excise taxes | 240,550 | (211,735) |
| Change in assets and liabilities: | | |
| Accrued interest and dividends receivable | 2,648 | 3,844 |
| Refundable unrelated business income and excise taxes | (167,266) | - |
| Other assets | 4,585 | (18,731) |
| Accounts payable and accrued expenses | (310,372) | 299,073 |
| Healthcare grants payable | 1,533,771 | (488,233) |
| Net cash used by operating activities | <u>(6,490,654)</u> | <u>(6,399,139)</u> |
| Cash flows from investing activities: | | |
| Purchase of investments | (13,262,328) | (7,797,024) |
| Proceeds from sale of investments | 16,054,426 | 10,517,373 |
| Purchase of property and equipment | (20,204) | (29,019) |
| Net cash provided by investing activities | <u>2,771,894</u> | <u>2,691,330</u> |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | (77,393) | (74,230) |
| Net decrease in cash and cash equivalents | <u>(3,796,153)</u> | <u>(3,782,039)</u> |
| Cash and cash equivalents, beginning of year | <u>6,521,329</u> | <u>10,303,368</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,725,176</u> | <u>\$ 6,521,329</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | <u>\$ 56,201</u> | <u>\$ 59,364</u> |
| Cash paid for excise taxes | <u>\$ 201,422</u> | <u>\$ 55,219</u> |

See accompanying notes.

Notes to Financial Statements

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 three classes of net assets as follows:

- **Unrestricted** amounts are net assets that are not subject to donor-imposed restrictions. Such net assets are available for any purpose consistent with the Foundation's mission.
- **Temporarily restricted** amounts are those that are stipulated by donors for specific purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.
- **Permanently restricted** amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

The Foundation has no temporarily or permanently restricted net assets.

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.

Obici Healthcare Foundation, Inc.
Notes to Financial Statements

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.

Investment fees shown in the accompanying statements of activities consists of fees from Level 1 investments only. All other fees are not readily determinable.

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.

Healthcare grant expenditures

Healthcare 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, 2017 and 2016, all grants payable were current liabilities. The Foundation awarded the Spring 2017 round of grants in March, 2017, where previously the spring round was awarded in April. Therefore, three rounds and two rounds of grants were recognized as a current year expense during 2017 and 2016, respectively.

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 healthcare grants and program and administrative expenses. Program and administrative expenses relate to activities which support the grant making process as well as administrative operational costs.

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 2017 and 2016.

Obici Healthcare Foundation, Inc.
Notes to Financial Statements

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.

Subsequent events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 30, 2017, the date the financial statements were available to be issued.

3. Presentation of Debt Issuance Costs

Effective April 1, 2016, the Company has adopted ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which amends current presentation guidance by requiring debt issuance costs related to a recognized debt liability be presented on the statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. Prior to the issuance of this ASU, an entity would present debt issuance costs as an asset. The new accounting guidance simplifies the presentation as debt issuance costs are now shown as a deduction from long-term debt. The statement of financial position and cash flows as of March 31, 2016, have been adjusted to reflect retrospective application of the new accounting guidance as follows:

| | As Previously Reported | Retrospective Adjusted | As Adjusted |
|----------------------------------|---------------------------------------|-----------------------------------|------------------------|
| Statements of Financial Position | | | |
| Assets: | | | |
| Other assets | \$ 735,209 | \$ (9,952) | \$ 725,257 |
| Total assets | 106,588,413 | (9,952) | 106,578,461 |
| Liabilities: | | | |
| Long-term debt | \$ 1,371,504 | \$ (9,952) | \$ 1,361,552 |
| Total liabilities | 3,440,289 | (9,952) | 3,430,337 |
| Total liabilities and net assets | 106,588,413 | (9,952) | 106,578,461 |

Obici Healthcare Foundation, Inc.
Notes to Financial Statements

| | <u>As Previously Reported</u> | <u>Retrospective Adjusted</u> | <u>As Adjusted</u> |
|-------------------------------------|---------------------------------------|-----------------------------------|------------------------|
| Statements of Cash Flows | | | |
| Other assets | \$ (16,259) | (2,472) | (18,731) |
| Amortization of debt issuance costs | - | 2,472 | 2,472 |

4. Investments

The Foundation's investments at March 31, 2017 and 2016, are as follows:

| | <u>2017</u> | | <u>2016</u> | |
|--------------------------------------|---------------------|----------------------|----------------------|----------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Readily marketable investments: | | | | |
| US equity securities | \$ 5,774,189 | \$ 6,638,951 | \$ 6,774,710 | \$ 6,080,686 |
| Exchange traded funds | 2,499,976 | 1,956,577 | 2,499,976 | 1,586,060 |
| Nonreadily marketable investments: | | | | |
| Limited partnership and corporations | 32,078,565 | 45,653,937 | 28,105,940 | 39,593,679 |
| Foreign investment corporations | <u>41,425,322</u> | <u>56,942,186</u> | <u>42,800,000</u> | <u>50,306,281</u> |
| | <u>\$81,778,052</u> | <u>\$111,191,651</u> | <u>\$ 80,180,626</u> | <u>\$ 97,566,706</u> |

Change in net unrealized gains included in change in net assets relating to assets held at March 31, 2017 and 2016 were \$12,027,519 and (\$10,586,746), 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:

| | |
|---------|---|
| 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: <ul style="list-style-type: none"> • 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, 2017 and 2016, the Foundation had unfunded commitments related to limited partnerships and corporations currently invested in of \$5,574,725 and \$1,337,051, respectively, and committed to, but not invested in of \$7,100,000 and \$5,700,000, respectively. Nonreadily marketable investments also contain liquidity restrictions, which are as follows at March 31, 2017 and 2016:

Limited Partnerships and Corporations

At March 31, 2017, approximately 47% 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 16% of these investments are subject 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 37% of these investments cannot be redeemed during the life of the partnerships which have remaining lives ranging from 1 to 8 years. 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, 2016, approximately 57% of these investments are eligible for redemption either on a monthly or quarterly basis, subject to certain restrictions, which include a notice period of 10 to 60 days. Approximately 16% of these investments are subject to a 3 year lock-up period. These redemption restrictions will lapse in December, 2016 but will automatically renew for another 3 year period unless the Foundation elects to withdraw interest. Approximately 27% of these investments cannot be redeemed during the life of the partnerships which have remaining lives ranging from 4 to 9 years. 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, 2017, approximately 83% of these investments are eligible for redemption either on a monthly, quarterly or bi-annual basis, subject to certain restrictions, which include a notice period of 30 to 90 days. Approximately 17% of these investments are subject to a 1 to 3 year lock-up period. These redemption restrictions will either lapse in April, 2019 but will automatically renew for another 3 year period unless the Foundation elects to withdraw its interest or lapse in July 2017.

Obici Healthcare Foundation, Inc.
Notes to Financial Statements

At March 31, 2016, approximately 89% of these investments are eligible for redemption either on a monthly, quarterly or bi-annual basis, subject to certain restrictions, which include a notice period of 30 to 90 days. Approximately 11% of these investments are subject to a 3 year lock-up period. These redemption restrictions will lapse in April, 2016 but will automatically renew for another 3 year period unless the Foundation elects to withdraw its interest.

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, 2017 and 2016.

| | 2017 | | | |
|---|--|----------------|----------------|----------------------|
| | Fair Value Measurements at March 31 using | | | |
| | Level 1 | Level 2 | Level 3 | Fair Value |
| US equity securities: | | | | |
| Small cap equity securities | <u>\$ 6,638,951</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,638,951</u> |
| Total US equity securities | <u>6,638,951</u> | <u>-</u> | <u>-</u> | <u>6,638,951</u> |
| Exchange traded funds: | | | | |
| Oil and gas exploration and production | <u>1,956,577</u> | <u>-</u> | <u>-</u> | <u>1,956,577</u> |
| Total exchange traded funds | <u>1,956,577</u> | <u>-</u> | <u>-</u> | <u>1,956,577</u> |
| Partnerships and corporations measured at net asset value: ^(a) | | | | |
| International closed end funds | - | - | - | 2,604,542 |
| Global equity securities | - | - | - | 10,249,131 |
| Global equity fund of hedge funds | - | - | - | 7,335,677 |
| US corporate credit | - | - | - | 7,415,736 |
| US micro-cap equity securities | - | - | - | 3,848,603 |
| US opportunistic value | - | - | - | 4,715,990 |
| US investment grade government and corporate | - | - | - | 4,945,747 |
| Real estate | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,538,511</u> |
| Total partnerships and corporations | <u>-</u> | <u>-</u> | <u>-</u> | <u>45,653,937</u> |
| Foreign investment corporations measured at net asset value: ^(a) | | | | |
| ASEAN long-only equity | - | - | - | 2,936,619 |
| Brazil public/private equity | - | - | - | 1,671,242 |
| China long/short equity | - | - | - | 4,279,911 |
| Global long-only equity | - | - | - | 9,752,285 |
| Global distressed credit hedge | - | - | - | 5,823,566 |
| Global long/short equity hedge | - | - | - | 7,589,586 |
| European long-only equity | - | - | - | 11,913,013 |
| US long/short opportunistic | - | - | - | 5,639,417 |
| US credit markets | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,336,547</u> |
| Total foreign investment corporations | <u>-</u> | <u>-</u> | <u>-</u> | <u>56,942,186</u> |
| | <u>\$ 8,595,528</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$111,191,651</u> |

Obici Healthcare Foundation, Inc.
Notes to Financial Statements

| | 2016 | | | |
|---|---|-------------|-------------|----------------------|
| | Fair Value Measurements at March 31 using | | | |
| | Level 1 | Level 2 | Level 3 | Fair Value |
| US equity securities: | | | | |
| Small cap equity securities | \$ 6,080,686 | \$ - | \$ - | \$ 6,080,686 |
| Total US equity securities | <u>6,080,686</u> | <u>-</u> | <u>-</u> | <u>6,080,686</u> |
| Exchange traded funds: | | | | |
| Oil and gas exploration and production | 1,586,060 | - | - | 1,586,060 |
| Total exchange traded funds | <u>1,586,060</u> | <u>-</u> | <u>-</u> | <u>1,586,060</u> |
| Partnerships and corporations measured at net asset value: ^(a) | | | | |
| International closed end funds | - | - | - | 4,111,401 |
| Global equity securities | - | - | - | 15,033,512 |
| Global equity fund of hedge funds | - | - | - | 6,556,441 |
| US corporate credit | - | - | - | 3,829,667 |
| US micro-cap equity securities | - | - | - | 3,267,443 |
| US opportunistic value | - | - | - | 2,432,574 |
| Real estate | - | - | - | 4,362,641 |
| Total partnerships and corporations | <u>-</u> | <u>-</u> | <u>-</u> | <u>39,593,679</u> |
| Foreign investment corporations measured at net asset value: ^(a) | | | | |
| ASEAN long-only equity | - | - | - | 2,766,096 |
| Brazil public/private equity | - | - | - | 1,701,025 |
| China long/short equity | - | - | - | 4,027,765 |
| Global long-only equity | - | - | - | 9,176,298 |
| Global distressed credit hedge | - | - | - | 5,569,449 |
| Global long/short equity hedge | - | - | - | 6,041,485 |
| European long-only equity | - | - | - | 10,159,857 |
| US long/short opportunistic | - | - | - | 4,618,918 |
| US credit markets | - | - | - | 6,245,348 |
| Total foreign investment corporations | <u>-</u> | <u>-</u> | <u>-</u> | <u>50,306,281</u> |
| | <u>\$ 7,666,746</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 97,566,706</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.

Obici Healthcare Foundation, Inc.
Notes to Financial Statements

5. Property and Equipment

Property and equipment consist of the following:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|----------------------------|----------------------------|
| Building | \$ 1,616,468 | \$ 1,616,468 |
| Land improvements | 432,748 | 432,748 |
| Furniture and fixtures | 175,851 | 163,258 |
| Equipment | 73,304 | 145,978 |
| Land | 102,507 | 102,507 |
| Building improvements | <u>5,150</u> | <u>5,150</u> |
| | 2,406,028 | 2,466,109 |
| Accumulated depreciation | <u>(729,239)</u> | <u>(704,957)</u> |
| Property and equipment, net | <u>\$ 1,676,789</u> | <u>\$ 1,761,152</u> |

Depreciation expense was \$102,833 and \$103,036 for 2017 and 2016, 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 1% for both 2017 and 2016. 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 2017 and 2016 was approximately \$49,000 and \$103,000, respectively.

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, 2017 and 2016.

Obici Healthcare Foundation, Inc.
Notes to Financial Statements

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 2017 and 2016 is 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 \$17,304 and \$14,832 at March 31, 2017 and 2016, respectively.

Future principal payments are as follows:

| <u>Year Ending</u> <u>March 31,</u> | | |
|--|----|------------------|
| 2018 | \$ | 80,525 |
| 2019 | | 83,785 |
| 2020 | | 86,815 |
| 2021 | | 90,372 |
| 2022 | | 94,030 |
| Thereafter | | <u>935,977</u> |
| | | 1,371,504 |
| Unamortized debt issuance costs | | <u>(7,480)</u> |
| | \$ | <u>1,364,024</u> |

9. 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 \$20,275 and \$30,777 during 2017 and 2016, respectively. These amounts are included in programs and administrative expenses on the statements of activities.

The Foundation also approved a nonqualified 457(b) "Top-Hat" deferred compensation 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 made nonmatching discretionary contributions to an individual account for the executive director position in 2016 only. Contributions were based on compensation during the fiscal year. The Foundation did not contribute any in 2017 and contributed \$13,246 during 2016. This amount is included in programs and administrative expenses on the statements of activities.