

**UniHealth Foundation**

Financial Statements

September 30, 2017 and 2016



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
UniHealth Foundation  
Los Angeles, California

We have audited the accompanying financial statements of UniHealth Foundation (a California nonprofit foundation) (the "Organization"), which comprise the statements of financial position as of September 30, 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 (the "U.S."); 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S. 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 UniHealth Foundation as of September 30, 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 U.S.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
Woodland Hills, California

February 13, 2018

UniHealth Foundation  
 Statements of Financial Position  
 September 30, 2017 and 2016

ASSETS

Current assets		
Cash and cash equivalents	\$ 6,381,416	\$ 3,022,792
Investments, current portion	266,999,266	256,109,401
Investment income receivable	-	89,945
Prepaid and other current assets	<u>71,431</u>	<u>160,807</u>
Total current assets	273,452,113	259,382,945
Property and equipment, net	48,595	13,329
Deposits	9,165	9,165
Investments, long-term	<u>32,869,891</u>	<u>30,095,778</u>
Total assets	<u>\$ 306,379,764</u>	<u>\$ 289,501,217</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 673,199	\$ 430,042
Payable for investments purchased	-	17,057
Grants payable, current portion	<u>7,576,168</u>	<u>8,365,975</u>
Total current liabilities	<u>8,249,367</u>	<u>8,813,074</u>
Long-term liabilities		
Grants payable, net of current portion	3,177,924	2,663,048
Other long-term liabilities	<u>832,159</u>	<u>765,635</u>
Total long-term liabilities	<u>4,010,083</u>	<u>3,428,683</u>
Total liabilities	12,259,450	12,241,757
Commitments and contingencies (Note 6)		
Unrestricted net assets	<u>294,120,314</u>	<u>277,259,460</u>
Total liabilities and net assets	<u>\$ 306,379,764</u>	<u>\$ 289,501,217</u>

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

UniHealth Foundation  
 Statements of Activities  
 For the Years Ended September 30, 2017 and 2016

	2017	2016
Revenues, gains and losses		
Investment income	\$ 6,214,222	\$ 5,526,260
Net unrealized and realized gain on investments	<u>28,614,847</u>	<u>19,693,455</u>
Total revenues, gains and losses	<u>34,829,069</u>	<u>25,219,715</u>
Expenses		
Charitable giving	11,858,358	13,424,831
Operating costs	2,322,180	2,001,651
Investment management fees	3,417,370	2,938,398
Depreciation	8,345	3,350
Excise taxes	<u>361,962</u>	<u>111,210</u>
Total expenses	<u>17,968,215</u>	<u>18,479,440</u>
Change in net assets	16,860,854	6,740,275
Net assets, beginning of year	<u>277,259,460</u>	<u>270,519,185</u>
Net assets, end of year	<u><u>\$294,120,314</u></u>	<u><u>\$277,259,460</u></u>

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

UniHealth Foundation  
Statements of Cash Flows  
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 16,860,854	\$ 6,740,275
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	8,345	3,350
Net unrealized and realized (gain) loss on investments	(28,614,847)	(19,693,455)
Changes in operating assets and liabilities		
Grants receivable	-	500,000
Receivables from investments sold	-	178,588
Investment income receivable	89,945	(913)
Prepaid and other current assets	89,376	(73,077)
Accounts payable and accrued expenses	(12,014)	37,194
Excise tax payable	255,171	-
Payable for investments purchased	(17,057)	17,057
Grants payable	(274,931)	(303,439)
Other long-term liabilities	66,524	44,280
Net cash used in operating activities	(11,548,634)	(12,550,140)
Cash flows from investing activities		
Purchases of property and equipment	(43,611)	(2,820)
Purchases of marketable securities	(108,749,078)	(79,769,120)
Proceeds from sales of marketable securities	123,699,947	92,353,689
Net cash provided by investing activities	14,907,258	12,581,749
Net increase in cash and cash equivalents	3,358,624	31,609
Cash and cash equivalents, beginning of year	3,022,792	2,991,183
Cash and cash equivalents, end of year	\$ 6,381,416	\$ 3,022,792

Supplemental disclosure of cash flow information

Cash paid during the year for excise taxes	\$ -	\$ 137,811
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The accompanying notes are an integral part of these financial statements.

UniHealth Foundation  
Notes to Financial Statements  
September 30, 2017 and 2016

1. NATURE OF OPERATIONS

UniHealth Foundation (UH or the Organization) is a California, nonprofit private foundation, formed in 1998 as a grant making organization. The Organization is committed to being a pacesetter in health philanthropy, identifying and supporting innovative activities, while provoking and sustaining changes that positively impact health outcomes. The Organization's mission is to support and facilitate activities that significantly improve the health and well-being of individuals and communities it serves. In carrying out its mission, the Organization examines trends and challenges in the healthcare system and furthers its charitable mission by making grants in three priority areas: population and community health, healthcare delivery systems, and healthcare workforce.

In September 2015, the Organization reached a consensual agreement with the Office of California's Attorney General to modify some of the restrictions to its grant making. Wellness and prevention were added to the definition of health. The Organization's two funds, the General Purpose Fund and the Hospital Fund, were affirmed. Charitable expenditures from the Hospital Fund are made to nonprofit hospitals and other qualified nonprofits for healthcare services and programs provided by, through, or in close cooperation with qualified charitable hospitals in California. At least 60% of Hospital Fund charitable expenditures are allocated to four specified service areas in Los Angeles and northern Orange Counties. Charitable expenditures from the General Purpose Fund are distributed to qualified nonprofit organizations not working in close cooperation with hospitals for health-related purposes consistent with the Organization's mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The accounts of the Organization are maintained on the accrual basis of accounting. All assets and liabilities of the Organization are recorded at historical cost, less accumulated depreciation and reserves for estimated losses, with the exception of investments that are recorded at fair value.

Revenues, gains, expenses, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. There were no temporarily restricted net assets during 2017 or 2016.

UniHealth Foundation  
Notes to Financial Statements  
September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Permanently restricted net assets* - Net assets that are permanently restricted by donors for investment in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets during 2017 or 2016.

The Organization reports all of its expenses in the unrestricted fund, regardless of the source of the funds for the expenditures. A transfer of net assets from restricted net assets to unrestricted net assets is reported upon satisfaction of the donor's requirements.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying value reported in the statement of financial position approximates fair value.

Investments

The Organization accounts for investments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958-320, *Not-for-Profit Entities: Investments - Debt and Equity Securities* (ASC 958-320). ASC 958-320 requires that investments in debt and equity securities with readily determinable fair values be reported at fair value in the statement of financial position. Investments in partnerships, for which there is no readily available market, are valued by the Organization using methods that management believes provide a reasonable estimate of fair value. These methods include initial due diligence and ongoing monitoring by management of investment funds.

Sales and purchases of securities are recorded on trade date, which results in receivables and payables on trades that have not yet settled at the financial statement date. Interest income is recorded as earned on an accrual basis, and dividend income is recorded based upon the ex-dividend date. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses are included in the statement of activities and represent the difference between the cost and current market quotations of investments held at the end of the fiscal year.

Investments are made according to the investment policies, guidelines, and objectives adopted by the Organization's Board of Directors. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. Market values of such investments are routinely reviewed by the Board of Directors.



UniHealth Foundation  
Notes to Financial Statements  
September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

The Organization has adopted Accounting Standards Codification No. 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10) which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of inputs that may be used to measure fair value under ASC 820-10 are described below:

- *Level 1* - Quoted prices in active markets for identical assets or liabilities.
- *Level 2* - Observable inputs based on quoted prices in non-active markets or in active markets for similar assets and liabilities. Inputs other than quoted prices that are observable or inputs that are not directly, but are corroborated by observable market data.
- *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the measurements of the assets or liabilities.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of fixed income and equity securities are based on quoted market prices. Alternative investments consist of investments in limited partnerships, which invest primarily in private equity securities and hedge funds. The estimated fair values of these alternative investments are based on valuations provided by the general partner. The Organization reviews and evaluates the NAV provided by the general partner and assesses the methods and assumptions used in determining the fair value of their investments. Other alternative investments are valued in a variety of ways including broker quotations and pricing models. An outside consulting firm has been engaged to monitor and evaluate various fair value calculations for alternative investments. Alternative investments made up approximately 26% of total investments for the years ended September 30, 2017 and 2016.

Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Property and equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over lives ranging between 3 and 10 years. Leasehold improvements are amortized using the straight-line method over the shorter of 10 years or the remaining lease term.

UniHealth Foundation  
Notes to Financial Statements  
September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excise and income taxes

As a private foundation, the Organization is subject to federal tax at a 2% rate (1% if certain criteria are met) on realized appreciated gains and investment income earned. For the years ended September 30, 2017 and 2016, the Organization was subject to a 2% and 1% rate, respectively, and excise tax expense was \$361,962 and \$111,210, respectively.

Accounting principles generally accepted in the United States of America require Organizations to evaluate tax positions taken and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed the tax positions taken, and has concluded that as of September 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Organization's federal income tax and informational returns for tax years ended September 30, 2013 and subsequent remain open to examination by the Internal Revenue Service. The returns for California, the Organization's only state tax jurisdiction, remain open to examination by the California Franchise Tax Board for tax years ended September 30, 2014 and subsequent.

Charitable giving

Charitable giving is charged against operations when authorized by the Organization's Board of Directors. The actual payment of the grant may not necessarily occur in the year of authorization.

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.

Concentrations of credit risk

The Organization invests in various types of marketable securities. Marketable securities are subject to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain marketable securities, it is reasonably possible that the changes in the value of marketable securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements. The Organization has established guidelines relative to diversification and maturities that target certain safety and liquidation risk levels. These guidelines are periodically reviewed and modified when necessary. Marketable securities are managed by professional investment managers within the established guidelines.

UniHealth Foundation  
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September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of credit risk (continued)

The Organization maintains its cash and equivalents in bank deposit accounts and brokerage accounts which generally exceed the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) limits. Substantially all of the Organization's cash and equivalents are uninsured. The Organization has not experienced any losses in such accounts and does not believe that it is exposed to any significant risk on cash and equivalents. Cash and equivalents represent approximately 1% of the Organization's total investment portfolio.

Reclassifications

Certain reclassifications have been made to the prior year financial statement presentation to conform to the current year format. The purpose of the reclassifications is to provide a more accurate representation of current assets and net activity from marketable securities. The reclassifications do not affect previously reported net assets or change in net assets.

Subsequent events

The Organization has evaluated subsequent events through February 13, 2018, the date the financial statements were available to be issued, and determined that no matters required disclosure.

UniHealth Foundation  
Notes to Financial Statements  
September 30, 2017 and 2016

3. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. fixed income funds	\$ 54,259,170	\$ -	\$ -	\$ 54,259,170
Global fixed income funds	17,019,570	-	-	17,019,570
Global equity funds	49,208,926	-	-	49,208,926
U.S. equity funds	98,017,889	-	-	98,017,889
Other	<u>3,988,595</u>	<u>-</u>	<u>-</u>	<u>3,988,595</u>
	<u>\$222,494,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>222,494,150</u>
Investments measured at net asset value				<u>77,375,007</u>
				<u>\$299,869,157</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. fixed income funds	\$ 53,371,429	\$ -	\$ -	\$ 53,371,429
Global fixed income funds	15,490,350	-	-	15,490,350
Global equity funds	56,160,584	-	-	56,160,584
U.S. equity funds	83,930,715	-	-	83,930,715
Other	<u>3,419,324</u>	<u>-</u>	<u>-</u>	<u>3,419,324</u>
	<u>\$212,372,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>212,372,402</u>
Investments measured at net asset value				<u>73,832,777</u>
				<u>\$286,205,179</u>

UniHealth Foundation  
Notes to Financial Statements  
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3. INVESTMENTS (continued)

The Organization uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists investments measured at net asset value by major category as of September 30, 2017:

<u>Product</u>	<u>Strategy</u>	<u>NAV in Funds</u>	<u># of Funds</u>	<u>Amount of Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Timing to Draw Down Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>	<u>Redemption Restrictions in Place at Year End</u>
Private Equity	Small, mid and large-cap companies, financial restructuring, international equities, real estate and technology.	\$ 32,869,891	18	1 to 12 years	\$ 27,567,038	3 to 6 years from inception	Funds are in private equity structure with no ability to be redeemed	N/A	N/A
Hedge Funds	Distressed asset and fixed income, long/short U.S. cap, value and emerging technologies; bank debt, liquidations, direct lending and global growth	11,146,205	3	N/A	-	N/A	Ranges between quarterly redemption with 65 days notice to biannual redemption with 95 days notice	None	None
Commingled Funds	Global fixed income securities, currency, currency derivatives, private bank loans and high yield fixed income securities	33,358,911	3	N/A	-	N/A	Ranges from daily redemption with 10 days notice to quarterly redemption with 60 days notice.	None	None
Total		<u>\$ 77,375,007</u>	<u>24</u>		<u>\$ 27,567,038</u>				

UniHealth Foundation  
Notes to Financial Statements  
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3. INVESTMENTS (continued)

The following table lists investments measured at net asset value by major category as of September 30, 2016:

<u>Product</u>	<u>Strategy</u>	<u>NAV in Funds</u>	<u># of Funds</u>	<u>Amount of Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Timing to Draw Down Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>	<u>Redemption Restrictions in Place at Year End</u>
Private Equity	Small, mid and large-cap companies, financial restructuring, international equities, real estate and technology	\$ 30,095,778	15	1 to 10 years	\$ 17,464,044	3 to 6 years from inception	Funds are in private equity structure with no ability to be redeemed	N/A	N/A
Hedge Funds	Distressed asset and fixed income, long/short U.S. cap, value and emerging technologies; bank debt, liquidations, direct lending and global growth	28,231,183	6	N/A	-	N/A	Ranges between monthly redemption with 30 days notice to annual redemption with 95 days notice	None	None
Commingled Funds	Global fixed income securities, currency, currency derivatives, private bank loans and high yield fixed income securities	15,505,816	2	N/A	-	N/A	Ranges from daily redemption with 10 days notice to quarterly redemption with 60 days notice.	None	None
Total		<u>\$ 73,832,777</u>	<u>23</u>		<u>\$ 17,464,044</u>				

UniHealth Foundation  
Notes to Financial Statements  
September 30, 2017 and 2016

4. GRANTS PAYABLE

Grants authorized but unpaid as of September 30, 2017 and 2016 are reported as liabilities. The following is a summary of grants authorized and payable as of September 30, 2017 and 2016.

Grants payable consist of the following:

	<u>2017</u>	<u>2016</u>
To be paid in less than one year	\$ 7,576,168	\$ 8,365,975
To be paid in one to two years	3,027,968	2,803,208
To be paid in over two years	<u>317,215</u>	<u>-</u>
	10,921,351	11,169,183
Less: present value discount (5%)	(167,259)	(140,160)
Less: current portion	<u>(7,576,168)</u>	<u>(8,365,975)</u>
Grants payable, net of current portion	<u>\$ 3,177,924</u>	<u>\$ 2,663,048</u>

The Organization is required to distribute annually, to qualifying charitable organizations, an amount equal to 5% of the average fair market value of the Organization's assets (the minimum distribution). If the Organization does not distribute the required minimum distribution, a one-year grace period is granted to distribute the undistributed income. If undistributed income is not distributed by the close of the following tax year, a minimum 30% penalty under Internal Revenue Code (IRC) S4942(a) will apply. The Organization met the IRC grant distribution requirement for the years ended September 30, 2017 and 2016.

5. OTHER LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

	<u>2017</u>	<u>2016</u>
Deferred compensation	\$ 568,561	\$ 489,009
Employee settlement	<u>263,598</u>	<u>276,626</u>
	<u>\$ 832,159</u>	<u>\$ 765,635</u>

6. COMMITMENTS AND CONTINGENCIES

Office lease

The Organization leases office space under a noncancelable operating lease containing annual escalations and a renewal option, and expires March 31, 2025.

UniHealth Foundation  
Notes to Financial Statements  
September 30, 2017 and 2016

6. COMMITMENTS AND CONTINGENCIES (continued)

Office lease (continued)

The scheduled minimum lease payments under the lease terms are as follows:

Year ending September 30,

2018	\$ 164,746
2019	169,688
2020	174,779
2021	180,022
2022	185,423
Thereafter	488,757
	\$ 1,363,415

Office lease expense for the years ended September 30, 2017 and 2016 was \$147,925 and \$143,530, respectively.

Capital commitments

The Organization invests in several limited partnerships, which require capital commitments. As of September 30, 2017, the remaining balance of the capital commitments on these investments is \$27,567,038 (see Note 3).

Legal actions

The Organization and its former subsidiaries are subject to various claims and legal actions that arise in the ordinary course of business, including wrongful termination and workers' compensation claims, among others. In the opinion of management in consultation with counsel, the ultimate resolution of such matters, beyond amounts covered by insurance, will not have a material adverse effect on the Organization's financial position or results of operations.

7. EMPLOYEE BENEFIT PLANS

The Organization has adopted a defined contribution 403(b) Retirement Plan (403(b) Plan). All employees of the Organization are eligible to participate. The Organization does not make matching contributions to the 403(b) Plan.

The Organization also sponsors a Simplified Employee Pension Plan (SEP Plan) whereby the Organization makes required contributions of the lesser of 25% of compensation or \$54,000 per year to the SEP Plan on behalf of the employees, which are then 100% participant directed. All employees of the Organization are eligible to participate in the SEP Plan. The Organization's contributions to the SEP Plan were \$144,708 and \$127,446 for the years ended September 30, 2017 and 2016, respectively.