Overlook Foundation

Financial Statements and Independent Auditor's Report

June 30, 2018 and 2017



Overlook Foundation

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Independent Auditor's Report

The Board of Trustees Overlook Foundation

We have audited the accompanying financial statements of Overlook Foundation, which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

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 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 Overlook Foundation as of June 30, 2018 and 2017, 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.

Eatontown, New Jersey December 18, 2018

CohnReynickZZF

STATEMENTS OF FINANCIAL POSITION FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Assets	=	
Current Assets		
Cash and cash equivalents	\$ 2,529,305	\$ 5,037,523
Current portion of pledges receivable, net	1,175,786	914,286
Prepaid expenses and other current assets	112,897	238,644
Total current assets	3,817,988	6,190,453
Other Assets		
Gift annuity investments	2,722,524	2,668,991
Investments	85,390,970	77,576,411
Pledges receivable, less current portion, net	1,635,800	1,397,489
Due from charitable trusts	845,682	530,861
Other assets	134,311	114,050
Total assets	\$ 94,547,275	\$ 88,478,255
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 409,072	\$ 150,455
Grant payable to affiliate	203,152	976,649
Grant payable to non-affiliate	50,000	50,000
Deferred revenue	10,000	<u> </u>
Total current liabilities	672,224	1,177,104
Other liabilities		
Gift annuity obligations	1,050,463	1,093,313
Due to affiliate	4,755,945	4,936,537
Grant payable, to non-affiliate less current portion, net	-	48,309
Total liabilities	6,478,632	7,255,263
Net assets		
Unrestricted:		
Unrestricted - Undesignated	9,187,910	8,247,621
Unrestricted - Board Designated	242,495	225,106
Total Unrestricted	9,430,405	8,472,727
Temporarily restricted	47,808,467	42,181,943
Permanently restricted	30,829,771	30,568,322
Total net assets	88,068,643	81,222,992
Total liabilities and net assets	\$ 94,547,275	\$ 88,478,255

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

June 30, 2017 June 30, 2018 Temporarily Permanently Temporarily. Permanently Unrestricted Unrestricted restricted net restricted net Total restricted net restricted net Total net assets net assets assets assets assets assets Public support, investment income and gains: Public support 1,182,688 966,890 4,911,190 261,449 6,139,529 4,203,811 965,027 6,351,526 Interest and dividend income 1,128,652 5,997,031 545,011 1,195,678 1,740,689 509,649 1,638,301 Unrealized gains 1,859,335 2,792,473 606,311 1,253,024 8,789,504 Realized gains (losses) 1,080,431 2,336,899 3,417,330 (92,512)(137, 322)(229,834)Present value adjustments (194,577)(140,882)(194,577)(140,882)3,875,690 3,780,345 (3,780,345) Net assets released from restrictions (3,875,690) Total public support, investment income and gains 7,074,333 5,626,524 12,962,306 8,172,643 7,270,945 261,449 965,027 16,408,615 Expenses Grants 3,580,949 3,580,949 4,084,044 4,084,044 Fundraising 1,896,723 1,896,723 2,236,211 2,236,211 Management and general 638,983 638,983 396,967 396,967 Total expenses 6,116,655 6,116,655 6,717,222 6,717,222 Change in net assets 957,678 5,626,524 261,449 6,845,651 1,455,421 7,270,945 965,027 9,691,393 Net assets, beginning of year 8,472,727 42,181,943 30,568,322 81,222,992 7,017,306 34,910,998 29,603,295 71,531,599

\$ 30,829,771

\$ 88,068,643

\$ 9,430,405

\$ 47,808,467

42,181,943

\$ 30,568,322

\$ 81,222,992

8,472,727

See accompanying notes

Net assets, end of year

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

		<u>2018</u>		<u>2017</u>
Operating Activities:				
Change in net assets	\$	6,845,651	\$	9,691,393
Adjustments to reconcile change in net assets to				
net cash provided by (used in) operating activities:				
Unrealized gains on investments		(1,859,335)		(8,789,504)
Permanently restricted contributions		(261,449)		(965,025)
Realized (gains) losses on investments		(3,417,330)		229,834
Bad debt expense		35,391		7,298
Pledges receivable discount		88,863		(13,675)
Gift annuities discount		124,063		130,645
Charitable remainder trust discount		70,514		10,236
Grants payable to non-affiliate discount		1,691		<u> </u>
Changes in operating assets and liabilities:				
Pledges receivable		(624,065)		(56,040)
Prepaid expenses and other current assets		125,747		(152,242)
Due from charitable trusts		(385, 335)		=
Accounts payable and accrued expenses		258,617		(105,434)
Deferred revenue		10,000		5
Grant payable to affiliate		(773,497)		(279,157)
Grant payable to non-affiliate	-	(50,000)	_	(46,676)
Net cash provided by (used in) operating activities	-	189,526	-	(338,347)
Investing Activities:				
Proceeds from the sale of investments		18,096,035		13,341,930
Expenditures for investments		(20,687,462)		(14,736,476)
Cash surrender value donated life insurance		(20,261)		-0
Due to affiliate		(180,592)		41,660
Net cash used in investing activities		(2,792,280)	_	(1,352,886)
Financing Activities:				
(Payment)/receipt of annuity obligations		(166,913)		86,321
Permanently restricted contributions		261,449		965,025
Net cash provided by financing activities		94,536		1,051,346
Net decrease in cash and cash equivalents		(2,508,218)		(639,887)
Cash and cash equivalents at beginning of year	-	5,037,523	_	5,677,410
Cash and cash equivalents at end of year	\$	2,529,305	\$	5,037,523

NOTES TO FINANCIAL STATEMENTS

1. Organization:

Overlook Foundation (the "Foundation") is incorporated as a non-profit organization established in 1976 to conduct fundraising activities for the benefit of the Overlook Medical Center (the "Overlook Division"), located in Summit, New Jersey, a division of AHS Hospital Corporation (the "Hospital"). The monies raised by the Foundation are used to provide direct support to the Overlook Division of the Hospital and its related community to improve the health status of the community by delivering high-quality, cost-effective health care.

2. Summary of Significant Accounting Policies:

(a) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred. The Foundation classifies revenue, gains and losses into three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets Net assets subject to donor-imposed stipulations that may, or will be, met by either actions of the Foundation and/or the passage of time.
- Permanently restricted net assets Net assets subject to donor-imposed stipulations that they must be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on the related investments for general or specific purposes.

(b) 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

(c) Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, pledges receivable and investments. The Foundation maintains its cash and cash equivalents with a high-credit quality financial institution on a regular basis. At times during the years ended June 30, 2018, and 2017, the Foundation held cash in excess of federally insured limits. The Foundation has not experienced any losses in such accounts, and it believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies: (continued)

(c) Concentrations of Credit Risk (continued)

The Foundation closely monitors its pledges with regard to collectability while maintaining allowances for potential losses. On a periodic basis, the Foundation evaluates its pledges receivable and establishes an allowance for doubtful accounts based on specific reviews of certain outstanding amounts and historical collection performance.

Concentrations of credit risk with respect to pledges receivable pertains to three pledges at June 30, 2018, and two pledges at June 30, 2017, that account for approximately 58% and 53%, respectively, of the pledges receivable on those dates.

Concentrations of credit risk with respect to investments pertains to three mutual fund investments, representing 35% and 41% of the total investments as of June 30, 2018, and 2017, respectively. The Foundation maintains its investments with investment advisors. The Foundation's investments, with the exception of cash, are currently held in accounts insured under the Securities Investment Protection Corporation ("SIPC").

(d) Cash and Cash Equivalents

Cash and cash equivalents include money market accounts and highly liquid short-term investments purchased with maturities of three months or less and are maintained primarily with banks and investment advisors.

(e) Pledges Receivable

Pledges receivable are primarily unsecured and are received from individuals, trusts, and businesses. Pledges receivable and their related revenue are recorded at present value on the date of the unconditional promise to pay. The discounts and allowances on those amounts are computed using assumptions made by management regarding the market and ultimate collectability of the receivables.

(f) Investments

Investments in mutual funds, bond funds, fixed income and alternative investments are carried at fair value. Donated securities are recorded at fair value at date of receipt. Unrealized gains are included in the accompanying statements of activities. Related custodian fees of \$174,694 and \$162,639 were expensed for the years ended June 30, 2018, and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies: (continued)

(g) Donor-Restricted Gifts

Unconditional promises to give are reported at fair value at the day the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

(h) Trusts

The Foundation receives income from funds held in trust by others. Income is recognized upon receipt and is recorded in temporarily restricted net assets on the statements of activities. The Foundation is not a beneficiary of the principal of the trust. The trust, which is not controlled by the Foundation, is not reflected in the statements of financial position.

(i) Gift Annuities

Gift annuities consist of contributions received subject to annuity contracts under which the Foundation is obligated to make agreed-upon periodic payments during the lives of the donors or designated beneficiaries of the donors.

Upon the receipt of a gift annuity, the net present value of the actuarially determined annuity payable is recognized as a liability, and the remainder received in excess of this liability is recorded as contribution revenue. The liability for future payments is decreased by payments made to donors or to the designated beneficiaries. Annual adjustments are made based upon actuarial valuations of the obligations for future annuity payments and reflected in the statements of activities. As of June 30, 2018, and 2017, the gross gift value of these annuity contracts was \$2,316,009 and \$2,296,009, respectively.

The Foundation is required by state mandate to establish a reserve which amounted to approximately \$1,196,937 and \$1,235,095 at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the Foundation had \$2,722,524 and \$2,668,991, respectively, in assets limited to use for the gift annuity contracts, which exceeds the minimum requirement.

(j) Grants

Grants are recorded as an expense and accrued as a liability when approved by the Board of Trustees.

(k) Donated Services

The Foundation received donated facilities and services from the Hospital that are immaterial to the financial statements for the years ended June 30, 2018, and 2017.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies: (continued)

(1) Income Taxes

The Foundation qualifies as a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for Federal or state income taxes has been recorded.

The Foundation has no unrecognized tax benefits at June 30, 2018, and 2017. The Foundation's Federal and state income tax returns prior to fiscal years 2015 and 2014, respectively, are closed and management continually evaluates changes in tax law and new authoritative rulings.

If applicable, the Foundation will recognize interest and penalties associated with tax matters as management and general charges and include accrued interest and penalties with accounts payable and accrued expenses in the statements of financial position. There were no interest or penalties paid for the years ended June 30, 2018, and 2017.

(m) Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the program and supporting services benefited, based on usage or other equitable bases established by management.

(n) Subsequent Events

Subsequent events have been evaluated through December 18, 2018, which is the date the financial statements were available to be issued.

3. Due from Charitable Trust:

The Foundation received two retained life estates. The fair value of these life estates is \$845,682 and \$530,861 as of June 30, 2018 and 2017, respectively. During 2018 and 2017, the Foundation recorded expense of \$70,514 and \$10,236, respectively, in the statements of activities as present value adjustments relating to the retained life estates.

NOTES TO FINANCIAL STATEMENTS

4. Pledges Receivable:

Pledges receivable, less an appropriate allowance for uncollectable items, are recorded at their estimated fair value with amounts due later than one year at the present value of estimated future cash flows using fair value interest rates ranging from 4% to 5% and are as follows:

	<u>2018</u>	<u>2017</u>
Pledges receivable in:		
Less than one year	\$ 1,255,786	\$ 994,286
One to five years	1,692,796	1,390,622
After five years	<u>1,675,000</u>	<u>1,650,000</u>
Totals	\$ 4,623,582	\$ 4,034,908
Less:		
Unamortized discount value ranging		
from 4% to 5%	(231,996)	(143,133)
Allowance for doubtful pledges	(1,580,000)	(1,580,000)
Present value of pledges receivable	2,811,586	2,311,775
Less current portion	(1,175,786)	(914,286)
Long-term portion	<u>\$ 1,635,800</u>	\$ 1,397,489

5. Investments:

Investments at fair value consist of the following at June 30, 2018, and 2017:

	<u>2018</u>	<u>2017</u>
U.S. Treasury notes and bonds	\$ 13,651,164	\$ 152,844
Mutual funds	46,495,586	51,370,799
Bond funds	12,338,154	14,172,272
Preferred stock fund	-	1,304,949
Alternative investments	<u>15,628,590</u>	13,244,538
Totals	\$ 88,113,494	\$ <u>80,245,402</u>

The Foundation received contributions for which the Overlook Division of the Hospital is the designated beneficiary. The Foundation has recorded these items as due to affiliate, and the assets received are included in the Foundation's investment portfolio. Interest and dividend income, realized and unrealized gains, and brokerage fees are allocated to the Overlook Division liability based on the ratio of the amounts due to affiliate to the total investments held.

NOTES TO FINANCIAL STATEMENTS

5. **Investments:** (continued)

Investment income for the years ended June 30, 2018, and 2017, are as follows:

	2018	<u>2017</u>
Interest and dividend income	\$ 1,740,689	\$ 1,638,301
Realized gains (losses), net	3,417,330	(229,834)
Unrealized gains	1,859,335	8,789,504
Investment income	\$ 7,017,354	\$ 10,197,971

6. Fair Value Measurements:

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

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data are available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Foundation utilizes valuation techniques that 1) maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and 2) consider counterparty credit risk in its assessment of fair value.

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements (continued):

Financial assets carried at fair value at June 30, 2018, and 2017, are classified in the tables below in one of the three categories described above.

		2018							
		Level 1		Level 2		<u>Total</u>			
Investments:									
Mutual funds:									
Large cap - U.S.	\$	10,120,797	\$	<u> </u>	\$	10,120,797			
Mid cap - U.S.		19,501,226		=		19,501,226			
Small cap - U.S.		Ē		€					
Large cap - International		=		<u>~</u>		-			
International developed		12,805,814		=		12,805,814			
Emerging market		1,345,225		2		1,345,225			
Bond funds:									
Investment grade taxable		8,562,200				8,562,200			
Investment grade tax exempt		1,005,465		<u> </u>		1,005,465			
Global high yield taxable		2,770,489		-		2,770,489			
U.S. Treasury notes and bonds	_		_	13,651,164		13,651,164			
Subtotal	(i	56,111,216	-	13,651,164	_	69,762,380			
Investments - gift annuities:									
Mutual funds:									
Large cap - U.S.		2,722,524	-			2,722,524			
Subtotal		2,722,524	_	7	-	2,722,524			
Retained life estate				845,682		845,682			
Alternative investments,									
measured at net asset value	_	<u> </u>		- 40	10	15,628,590			
Total assets, at fair value	\$	58,833,740	\$	14,496,846	\$	88,959,176			

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements: (continued)

		2017							
		Level 1	Ī	Level 2		Total			
Investments:									
Mutual funds:									
Large cap - U.S.	\$	12,040,893	\$		\$	12,040,893			
Mid cap - U.S.		10,234,530		S=0		10,234,530			
Small cap - U.S.		9,776,033		: =		9,776,033			
Large cap - International		15,050,834		\ -		15,050,834			
Emerging market		1,599,518		-		1,599,518			
Bond funds:				7		Tel			
Investment grade taxable		10,908,911		=		10,908,911			
Global high yield taxable		3,263,361				3,263,361			
Preferred stock fund		1,304,949		=		1,304,949			
U.S. Treasury notes			_	152,844	_	152,844			
Subtotal	_	64,179,029	-	152,844	-	64,331,873			
Investments - gift annuities:									
Mutual funds:									
Large cap - U.S.	_	2,668,991	_			2,668,991			
Subtotal		2,668,991				2,668,991			
Retained life estate				530,861		530,861			
Alternative investments,									
measured at net asset value		9				13,244,538			
Total assets, at fair value	\$	66,848,020	\$	683,705	\$	80,776,263			

In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) 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 line items presented in the statements of financial position.

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements: (continued)

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds, bond funds, and preferred stock funds: Valuations of mutual funds, bond funds and preferred stock funds are obtained from real-time quotes for transactions in active exchange markets involving identical assets (Level 1).

U.S. Treasury notes: Value based on a modeled bid evaluation pricing estimate for comparable instruments (Level 2).

Retained life estate: Investment is valued based upon current market values for similar assets discounted by applicable rates.

Alternative investments: Such investments are valued utilizing the net asset value ("NAV") provided by the underlying private investment companies and/or their administrators.

The Foundation uses the NAV to determine the fair value of all the underlying investments which (a) do not have 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 in other investment companies (in partnership format) by major category. There have been no changes in the methodologies used at June 30, 2018, and 2017.

NOTES TO FINANCIAL STATEMENTS

Alternative Investments/Dates	Strategy		air Value 6/30/18	Fair Value 6/30/17		Unfunded Commitment 6/30/18		Redemption Terms and Restrictions
P. L. Capital Group Financial Edge Fund (9/2012, 9/2013, 6/2014)	Long-term appreciation by investing in securities of banking and financial services and becoming activist owners in those firms to improve value.	\$	6,605,921	\$	6,124,394		N/A	Distributions at the discretion of the general partner but generally only upon the owner's redemption of holdings in the fund. Withdrawals after one year of investment plus sixty days' notice. No fixed date for the termination of the partnership.
Angelo Gordon Growth Capital Partners I (12/2007)	Investment in distressed middle-market companies and out-of-mainstream deep-value opportunities.	\$	807,537	\$	784,481	\$	105,000	Investment term of 7 to 10 years from December 2008, Payout after the closure of the fund. The term of the partnership was extended to December 31, 2019.
Angelo Gordon Net Lease Realty Fund III (4/2014)	Investment in single- tenant, commercial real estate, generally with less- than-investment grade tenants, either existing properties or build-to- suit. Purchase and lease- back situations with net leases of 15 years or more.	\$	784,309	\$	729,282	\$	250,000	No redemption of partnership interests until after the 11 year term of the partnership. Distributions after the four year commitment period unless sooner at the discretion of the general partner from rental or investment income. After the commitment period, quarterly distributions from net cash flow from property and interim investments.
Angelo Gordon Europe Holdings (3/2015)	Purchase of sub- performing and distressed commercial real estate assets and debt, most often in the U.K. Germany, France, and the Benelux countries. Business plan is to reposition assets after capital inflow and management change.	\$	1,216,779	\$	1,085,512	\$	464,025	Distributions during the four year commitment period are at the discretion of the general partner. Thereafter, net cash flow from investments and sales may be distributed if not needed for fees or investments. Any distributions during the commitment period and any from cash flow thereafter may be recalled.

NOTES TO FINANCIAL STATEMENTS

Alternative Investments/Dates	Strategy	1	air Value 6/30/18	ı	Fair Value 6/30/17	Co	infunded mmitment 6/30/18	Redemption Terms and Restrictions
GS Mt. Kellett Capital Partners Access (8/2008)	Investments in debt and equity of public and private firms, especially ones with tangible assets; bank loans and bonds; distressed investments, activist control positions in firms; stressed portfolios in North America, Europe, and Asia.	\$	112,387	\$	168,267	\$	44,604	Term of fund or at the discretion of the general partner. Target is seven years. Distribution at least within one year after the liquidation of all assets at the discretion of the general partner. Quarterly liquidity with 60 days' notice.
GS Anchorage Illiquid Opportunities Access Offshore Holdings (1/2010)	Investment in illiquid credit, distressed debt and asset markets of North America and Europe, including the use of leverage for those investments.	\$	612	\$	6,705	\$	86,278	The partnership is in the process of conducting an orderly liquidation in accordance with the partnership agreement.
GS Private Equity Partners IX Offshore (9/2011 secondary purchase of position)	Multi-strategy (turn- around, venture capital, large and middle-market buyouts, and industry- focused), direct and indirect equity investments primarily in North America and Europe.	\$	287,548	\$	376,152	\$	113,764	Through the later of Dec. 16 2016, or one year after liquidation of fund holdings. Redemption upon fund closure.
GS Perry Private Opportunities Access Offshore Holdings (4/2012 secondary purchase of position)	Less liquid opportunities within special situations (growth financing, restructuring), including portions of opportunities that their related hedge fund cannot own, joint government ventures, energy.	\$	134,636	\$	175,681	\$	395,234	Distribution within one year after the liquidation of all assets or at the discretion of the general partner. Redemption upon fund closure.

NOTES TO FINANCIAL STATEMENTS

Alternative Investments/Dates	Strategy	Fair Value 6/30/18	Fair Value 6/30/17	Co	Infunde d mmitme nt 6/30/18	Redemption Terms and Restrictions
GS Energy Private Equity Managers (Concentrated) Offshore (7/2012 secondary purchase of position)	Pooled/direct investments in oil, gas, and coal exploration; pipelines, refining facilities; and energy/power distribution and transmission.	\$ 108,339	\$ 172,074	\$	18,098	Distribution within one year of the close of the fund or at partner's discretion. Fund to close later of December 31, 2016 or one year after liquidation of the fund's investments.
GS Mezzanine Partners 2006 Offshore (6/2011 secondary purchase of position)	Current returns and long-term capital appreciation through investment in mezzanine securities, principally fixed income securities such as debt and preferred stock, that may also include an equity component such as warrants, options, common stock or a convertible feature.	\$ 25,291	\$ 76,363	\$	20,002	Term of the fund is 10 years after the commitment period with a possible one-year extension at the general partner's discretion or closure on the 15th anniversary of the fund. Amount and timing of distributions are at the sole discretion of the general partner, except that net proceeds from investment dispositions will be distributed as soon as is practical after receipt by the partnership.
GS Anchorage Illiquid Opportunities IV Access (1/2014)	Long-term investment exploiting dislocations in the credit and asset markets of North America, Europe, Australia, and New Zealand, especially in small to medium-sized opportunities. Also perhaps in cash and derivative instruments that are structured products linked to corporate and asset-backed credit risk.	\$ 1,392,018	\$ 1,514,307	\$	438,336	Payments at the general partners' discretion until dissolution of the partnership. Thereafter as sale of assets permit. Five-year life to the partnership, with two optional years.

NOTES TO FINANCIAL STATEMENTS

Alternative Investments/Dates	Strategy	air Value 6/30/18	Fair Value 6/30/17		Unfunded Commitment 6/30/18		Redemption Terms and Restrictions
GS Private Equity Co- Investment Partners Offshore (3/2015)	Long-term compounded returns through 20 to 30 investments in companies, alongside other managers, primarily in middle market buyout opportunities but also in distressed and growth companies in North America and Western Europe.	\$ 947,817	\$	415,660	\$	428,005	Term of the fund at the discretion of the general partner. After return of principal, limited partners will receive preferred return of 8% per year, compounded annually. Final redemption upon closure of the fund.
GS Thomas H. Lee Equity VI Access Offshore (3/2016 secondary purchase of position)	Create substantial capital gains by a value added approach through purchasing, leading, and managing large growthoriented companies, including helping companies develop sound, efficient operating strategies via active board members and teams of experts.	\$ 518,889	\$	933,735	\$	67,579	Redemption at the closure of the fund on the 10th anniversary of the first investment closing (or earlier at general partner's discretion), with three one-year extensions possible at the general partner's discretion.
Olympus Partners Growth Fund VI (3/2013)	Control middle-market leveraged buyouts or minority ownership financing in fundamentally sound businesses with potential for growth or operational improvement.	\$ 747,674	\$	646,925	\$	376,395	Distribution at the close of the fund or sooner at the discretion of the general partner. Four-year commitment period, with 10-year fee period and expected life of the fund. Amount and timing of distributions are at the sole discretion of the general partner.

NOTES TO FINANCIAL STATEMENTS

Alternative Investments/Dates	Strategy		Fair Value 6/30/18	Fair Value 6/30/17	Unfunded ommitment 6/30/18	Redemption Terms and Restrictions
Partners Group Real Estate Secondary 2017 (5/2017)	Investments in existing real estate-related assets, including funds, partnerships, equity, mezzanine debt, pooled investment vehicles, and similar assets and then providing management expertise.	\$	249,807	\$ *	\$ 1,246,980	Full redemption 10 years after the final closing, subject to three one-year extensions, with interim payments possible from exiting investments, at the general partner's discretion.
Avenue Aviation Opportunities Fund II (Offshore) (12/2017)	Investments in in- production, ubiquitous, mid-life commercial passenger aircraft and in aviation-related hard and soft assets for the purposes of leasing to carriers, mostly international, and at the end of aircraft life the sale of viable spare parts.	S	1,654,026	\$ a)	\$ 513,092	Fund to end on the fifth anniversary of the final investment closing of the fund, with two, one-year extensions permitted. No distributions in the first two years but thereafter return of capital over the investment period and eight percent cumulative compounded annual rate of return on the unreturned portion until the end of the fund.
Excelsior Holdings (limited partnership via bequest)	Long-term capital gains through real estate holdings.	\$	35,000	\$ 35,000	N/A	Annual payment of prorated share of income or prorated distribution of sales proceed after expenses. The general partner is marketing two properties remaining in the partnership. The valuation represents the Foundation's expected share from those proceeds.

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements: (continued)

The preceding methods may produce a fair-value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Transfers are measured at fair value on the date the transfer takes place. The Foundation recognizes transfers between levels in the fair-value hierarchy at the end of the reporting period.

7. Related Party Transactions:

The changes in due to affiliate as of June 30, 2018, and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Opening balance	\$ 4,936,537	\$ 4,894,877
Change in amount due to Overlook Division	(180,592)	41,660
Totals	\$ 4,755,945	\$ 4,936,537

The Foundation reimburses the Overlook Division on a monthly basis for operating costs paid by the Hospital on its behalf. These costs include payroll and employee fringe benefits, office equipment charges, and office supplies. In addition, the Foundation reimburses the Overlook Division for expenses incurred that meet specific donor guidelines. As of June 30, 2018, and 2017, the Foundation owed \$314,264 and \$136,089, respectively, to the Hospital for the above costs, which are included in accounts payable and accrued expenses on the accompanying statements of financial position.

The grant payable to affiliate is summarized as follows:

	<u>2018</u>	2017
Grant payable in:		
Less than one year	\$ 203,152	\$ 976,649

The balance of grants payable at June 30, 2018 and 2017, represents funds granted for the following purposes:

	<u>2018</u>	<u>2017</u>
Helipad project	\$ -	\$ 604,796
New medical equipment	203,152	203,152
Nurses education & operating room internship	·	164,640
Overlook Medical Center programming	·	4,061
Total	<u>\$ 203,152</u>	<u>\$ 976,649</u>

NOTES TO FINANCIAL STATEMENTS

8. Grant Payable to Non-affiliate:

This grant represents funds granted to an outside organization to fund the construction of a new first aid squad building. The grant payable is due as follows:

		2018	2017		
Less than one year	\$	50,000	\$	50,000	
One to five years				50,000	
Total	2000	50,000		100,000	
Less unamortized discount at 3.5%		-		(1,691)	
Less current portion		(50,000)		(50,000)	
	\$		\$	48,309	

9. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	2017
Research	\$ 625,524	\$ 868,518
Scholarship and education	7,513,703	6,638,438
Construction and equipment	9,727,589	8,258,911
Program support services	28,935,376	25,525,873
Family service association	1,006,275	890,203
	\$ 47,808,467	\$ 42,181,943

The restrictions primarily indicate that the contributions be used to support specific programs of the Overlook Division of the Hospital.

10. Endowment:

The Foundation's endowment includes both donor-restricted endowments and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2017, the Board of Trustees had designated \$216,431 of unrestricted net assets as a general endowment fund to support the palliative care program at the Hospital. Since that amount resulted from an internal designation and is not donor restricted, it is classified and reported as unrestricted net assets. The value of this board designated fund at June 30, 2018 and 2017 was \$242,495 and \$\$225,106, respectively.

NOTES TO FINANCIAL STATEMENTS

10. **Endowment:** (continued)

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the New Jersey Uniform Prudent Management of Institutional Funds Act ("NJUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets

(a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The accumulation of interest income, realized gains and losses, and unrealized gains and losses are recorded as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NJUPMIFA.

In accordance with the standard of prudence described by NJUPMIFA, the Foundation adopted an endowment spending rate which is approved annually by the Foundation's Board of Trustees. The spending rate is determined by the balance in the endowments, plus the balance of the associated temporarily restricted net assets, net of outstanding pledges, multiplied by the approved spending rate. The spending rate adopted for fiscal years 2018 and 2017 was 4.25%.

In accordance with NJUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

NOTES TO FINANCIAL STATEMENTS

10. **Endowment:** (continued)

Endowment net asset composition by type of fund and changes in endowment net assets as of and for the year ended June 30, 2018, are as follows:

		Board-			
	D	esignated	Temporarily	Permanently	
	Uı	nrestricted	Restricted	<u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$	225,106	\$ 24,088,624	\$ 30,568,322	\$ 54,882,052
Investment return – net appreciation	Ψ	14,085	3,481,201	#	3,495,286
Investment income		3,304	1,110,836	2	1,114,140
Contributions		-	27	261,449	261,449
Appropriation of endowment asset for expenditure	_	6 S T	(1,092,519)		(1,092,519)
Endowment net assets, end of year	\$	242,495	\$ 27,588,142	\$ 30,829,771	\$ 58,660,408
Net asset composition Donor restricted endowment Board-designated endowment	\$	242,495	\$ 27,588,142	\$ 30,829,771	\$ 58,417,913 242,495
Total	\$	242,495	\$ 27,588,142	\$ 30,829,771	<u>\$ 58,660,408</u>

Endowment net asset composition by type of fund and changes in endowment net assets as of and for the year ended June 30, 2017, are as follows:

year ended same so, 2017, are as tonews.	Board- Designated <u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently Restricted	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 18,436,210	\$ 29,603,295	\$ 48,039,505
New Board designation	216,431	*	390	216,431
Investment return – net appreciation	7,521	5,643,426		5,650,947
Investment income	1,154	1,057,554	-	1,058,708
Contributions	<u>=</u>	21,130	965,027	986,157
Appropriation of endowment asset for expenditure		(1,069,696)		(1,069,696)
Endowment net assets, end of year	<u>\$ 225,106</u>	<u>\$ 24,088,624</u>	<u>\$ 30,568,322</u>	<u>\$ 54,882,052</u>
Net asset composition Donor restricted endowment Board-designated endowment	\$ - - 225,106	\$ 24,088,624	\$ 30,568,322	\$ 54,656,946 225,106
Total	\$ 225,106	\$ 24,088,624	\$ 30,568,322	\$ 54,882,052

NOTES TO FINANCIAL STATEMENTS

10. **Endowment:** (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has an annual endowment spending policy that is specifically designed to assist in funding annual programming objectives and to preserve the value of the investment portfolio over time. In establishing this policy, the Foundation considers the long-term expected return of its endowment.

Accordingly, over the long-term the Foundation expects the current spending policy to allow its endowment to grow and maintain its value to support operations in the future. To meet these objectives, the Foundation utilizes a total return investment approach that emphasizes total return, consisting of investment income and realized and unrealized gains or losses and, accordingly, invests in mutual funds, bond funds, a preferred stock fund, U.S. Treasury notes, and private equities.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gift donated to the permanent endowment. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from prolonged unfavorable market fluctuations that continued to erode the accumulated gains of the permanently restricted endowments as well as continued appropriation for certain programs that was deemed prudent by the Foundation's Board of Trustees.

Subsequent gains that restore the fair value of the assets of the endowment funds to the required level stipulated by donors will be classified initially as increases in unrestricted net assets to the extent that shortfalls were charged to that fund and then to temporarily restricted net assets. At June 30, 2018, and 2017, there was no individual endowment fund within the permanently restricted net asset category with a fair value less than its historical corpus value.

11. Pension Plan:

Employees of the Foundation are employees of the Hospital and participate in the Employees' Cash Balance Plan of Atlantic Health System, Inc. (the "Plan"). The Plan is a non-contributory defined benefit plan. There is no method of determining the present value of the Foundation employees' pension benefits because of multiple entities in the Plan. The Hospital bills the Foundation a percentage of total Foundation salaries to cover pension costs and other fringe benefits and does not break out pension costs separately. Management receives and reviews a copy of the Hospital's pension plan on an annual basis.

NOTES TO FINANCIAL STATEMENTS

11. **Pension Plan:** (continued)

Effective January 1, 2014, the cash balance pension plan has been frozen to new employees hired after December 15, 2013. All employees hired after December 15, 2013 are eligible to participate in the Atlantic Health System 403B Defined Contribution Plan through voluntary paycheck contributions. In order to become eligible for the match and fixed non-elective contribution, the employee must have satisfied the attainment of age 21 and completed one year of service and 1,000 hours. However, the employee may contribute starting on the date of hire as deferred contributions. Atlantic Health System will match the employees' contributions 100 percent up to a maximum of 1 to 6 percent of compensation, depending on years of service. In addition, Atlantic Health makes a fixed non-elective contribution to each eligible participant equal to 2 percent of compensation to the participants employed at the end of the year.

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