



ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

September 30, 2019 and 2018

With Independent Auditor's Report

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

September 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Endowment for Health, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Endowment for Health, Inc. and Subsidiary (a non-profit organization), which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Endowment for Health, Inc. and Subsidiary as of September 30, 2019 and 2018, and the consolidated changes in their net assets and their consolidated cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis, rather than to present the financial position and changes in net assets of the individual entities, and is not a required part of the consolidated financial statements. Such consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2019 the Foundation adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
January 27, 2020

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position

September 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,044,937	\$ 579,281
Investments	82,390,934	83,823,227
Mission related investments	2,500,000	2,350,000
Prepaid federal excise tax	7,380	16,656
Other prepaid expenses	<u>32,979</u>	<u>38,988</u>
Total assets	<u>\$ 85,976,230</u>	<u>\$ 86,808,152</u>

LIABILITIES AND NET ASSETS

Grants payable	\$ 833,087	\$ 918,745
Accounts payable and accrued expenses	76,532	58,075
Deferred tax liability	<u>242,748</u>	<u>259,004</u>
Total liabilities	<u>1,152,367</u>	<u>1,235,824</u>
Net assets		
Without donor restrictions	82,840,449	85,572,328
With donor restrictions - appreciation on Forward Fund which is held in perpetuity	33,019	-
With donor restrictions - Forward Fund, held in perpetuity	<u>1,950,395</u>	<u>-</u>
Total net assets	<u>84,823,863</u>	<u>85,572,328</u>
Total liabilities and net assets	<u>\$ 85,976,230</u>	<u>\$ 86,808,152</u>

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

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Consolidated Statements of Activities

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions		
Revenue and net investment income		
Income on investments		
Interest and dividends	\$ 1,181,504	\$ 1,122,912
Investment management and custodial fees	(144,660)	(159,956)
Realized gain on investments	1,299,193	2,158,810
Unrealized (loss) gain on investments	(1,102,369)	3,626,919
Grant income	87,116	49,950
Endowment spending draw for operations	<u>31,157</u>	<u>-</u>
Total revenue and net investment income	<u>1,351,941</u>	<u>6,798,635</u>
Expenses		
Program services		
Grant expense	2,372,211	2,233,948
Salaries and benefits	734,441	719,713
Professional services	389,536	350,032
Building and related expenses	41,596	45,909
Program support	91,876	81,590
Miscellaneous expenses	<u>42,089</u>	<u>32,486</u>
Total program services	<u>3,671,749</u>	<u>3,463,678</u>
Management and general		
Salaries and benefits	258,835	256,145
Professional services	86,308	89,004
Building and related expenses	13,870	15,321
Administrative support	12,062	9,818
General operating expenses	33,362	24,279
Federal excise tax expense	<u>7,634</u>	<u>85,708</u>
Total management and general	<u>412,071</u>	<u>480,275</u>
Total expenses	<u>4,083,820</u>	<u>3,943,953</u>
Change in net assets without donor restrictions	<u>(2,731,879)</u>	<u>2,854,682</u>
Net assets with donor restrictions		
Contributions	1,950,395	-
Investment income, net	64,176	-
Endowment spending draw for operations	<u>(31,157)</u>	<u>-</u>
Change in net assets with donor restrictions	<u>1,983,414</u>	<u>-</u>
Total change in net assets	<u>(748,465)</u>	2,854,682
Net assets, beginning of year	<u>85,572,328</u>	<u>82,717,646</u>
Net assets, end of year	<u>\$ 84,823,863</u>	<u>\$ 85,572,328</u>

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

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (748,465)	\$ 2,854,682
Adjustments to reconcile change in net assets to net cash used by operating activities		
Realized gain on investments	(1,336,051)	(2,158,810)
Unrealized loss (gain) on investments	1,083,706	(3,626,919)
Contributions restricted to long-term purposes	(1,950,395)	-
Changes in operating assets and liabilities		
Decrease (increase) in		
Prepaid federal excise tax	9,276	(10,353)
Other prepaid expenses	6,009	(6,612)
(Decrease) increase in		
Grants payable	(85,658)	(209,846)
Accounts payable and accrued expenses	18,457	(1,203)
Deferred tax liability	<u>(16,256)</u>	<u>54,404</u>
Net cash used by operating activities	<u>(3,019,377)</u>	<u>(3,104,657)</u>
Cash flows from investing activities		
Proceeds from sale and redemption of investments	21,507,762	11,814,630
Purchase of investments	<u>(19,973,124)</u>	<u>(8,945,428)</u>
Net cash provided by investing activities	<u>1,534,638</u>	<u>2,869,202</u>
Cash flows from financing activities		
Contributions received for long-term purposes	<u>1,950,395</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	465,656	(235,455)
Cash and cash equivalents, beginning of year	<u>579,281</u>	<u>814,736</u>
Cash and cash equivalents, end of year	\$ <u>1,044,937</u>	\$ <u>579,281</u>

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

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Nature of Activities

Endowment for Health, Inc. (the Foundation) is a state-wide, private, non-profit foundation dedicated to improving the health of the people of New Hampshire, especially those who are vulnerable and underserved.

The Foundation was established in 1999 as a result of the sale of Blue Cross Blue Shield New Hampshire to Anthem Insurance. It was created for the purpose of improving the health and reducing the burden of illness of the people of New Hampshire. It accomplishes this purpose by awarding grants, making mission investing/program-related investments, and providing technical and financial assistance to health-related programs, organizations and projects benefiting the people of New Hampshire. The Foundation's spending policy requires a percentage of these funds be distributed annually in accordance with Internal Revenue Code requirements.

Since 2001, the Foundation has awarded nearly 1,400 grants, totaling more than \$53 million, to support a wide range of health-related programs and projects in New Hampshire. The major source of the Foundation's revenue is investment income.

In July 2007, Health Strategies of New Hampshire, Inc. (Health Strategies), the Foundation's wholly-owned subsidiary, was created in order to conduct initiatives, projects, programs, research and data collection and analysis, independently and with others, to address key issues and public policies that promote the health of New Hampshire residents. The major source of its revenue is grant income.

1. Summary of Significant Accounting Policies

Newly Adopted Accounting Principle and Reclassifications

In 2019, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting is streamlined and clarified. The existing three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near term financial requirements. The ASU also imposes several new requirements related to reporting expenses.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified as follows based on the existence or absence of donor-imposed restrictions:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions are to be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. During 2019, the Endowment received a contribution in the amount of \$1,950,395 from the New Hampshire Medical Malpractice Joint Underwriting Association (JUA). The Endowment has identified the JUA funds as the Forward Fund on the balance sheet. At September 30, 2019, net assets with donor restrictions substantively consisted of the restricted JUA contribution to be held in perpetuity, the income earned from which is to be used to promote aid to health care providers servicing medically underserved populations.

All contributions are considered to be contributions without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Contributions with donor restrictions whose restrictions are met in the same year as received are reflected as net assets without donor restrictions in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Principles of Consolidation

The accompanying financial statements include the consolidated financial statements of the Foundation and Health Strategies. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Foundation and its subsidiary have different fiscal years. The Foundation's fiscal year is October 1 to September 30 and Health Strategies' fiscal year is July 1 to June 30.

For the September 30, 2019 and 2018 consolidated financial statements, Health Strategies presents the twelve months October 1, 2018 to September 30, 2019 and October 1, 2017 to September 30, 2018, respectively.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Foundation and its subsidiary consider cash equivalents to consist of interest-bearing, demand bank accounts.

Money market accounts and other highly liquid debt securities held by its investment managers are considered investments and not cash equivalents, since it is the Foundation's Board's intention to invest these funds for long-term purposes.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position as provided by investment managers. Other investments, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using audited or unaudited values provided by external investment managers. The Foundation reviews and evaluates the valuations provided by the investment managers and believes that these valuations are a reasonable estimate of fair value, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Investments in general are exposed to various risks, such as interest rates, credit, and overall market volatility. As such, it is reasonably possible that changes could materially affect the amounts reported in the statements of financial position.

Grants

The Foundation recognizes a liability and corresponding expense for unconditional grants in the amount expected to be paid when grants are approved by the Board of Directors and the award is communicated to the grantee. Such liabilities are not recorded at their present values using a discount rate commensurate with the risks involved because the present value is not materially less than the amounts expected to be paid. Conditional grants approved by the Board of Directors, if any, are recorded when the recipient organizations meet the conditions.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Income and Excise Taxes

The Foundation and its subsidiary are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Code imposes a federal excise tax equal to 2% (reduced to 1% if certain requirements are met) on its net investment income (principally interest, dividends and net realized capital gains less expenses incurred in the production of investment income). The income tax filings for the tax years before 2015 are no longer subject to examination by federal and state taxing authorities.

The Foundation has adopted the provisions of FASB Accounting Standards Codification Subtopic 740-10-25, *Income Taxes - Overall - Recognition*, related to uncertain tax positions. The Foundation does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Expense Allocation

The financial statements report certain categories of expenses that are attributable to both program and management and general. These expenses require allocation on a reasonable basis consistently applied. Expenses that are attributable to both program and management and general include salaries and benefits, communication activities, technology, office expense and building and related expenses. The allocation is based on the proportion of time spent on each program by staff.

Subsequent Events

The Foundation has considered events occurring through January 27, 2020, which was the date that the financial statements were available to be issued.

2. Availability and Liquidity of Financial Assets

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to optimize its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and investments.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing operating activities as well as the conduct of services undertaken to support those operating activities.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover expenditures not covered by donor-restricted resources or, where appropriate, borrowings. Refer to the statements of cash flows, which identify the sources and uses of the Organization's cash and cash equivalents.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The following financial assets are expected to be available within one year of the statement of financial position date to meet general expenditures as of September 30, 2019:

Cash	\$ 1,044,937
Expected distribution of investments for use over the next 12 months	<u>4,100,000</u>
 Financial assets available to meet general expenditures within one year	 \$ <u><u>5,144,937</u></u>

The Foundation has investments without donor restrictions of \$80,407,520 at September 30, 2019. The investments are subject to various redemption and other restrictions described more fully in Note 5.

3. Investments

Investments consisted of the following at September 30:

	2019		2018	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Invested cash equivalents	\$ 737,746	\$ 737,746	\$ 2,679,804	\$ 2,679,804
Mutual funds				
Equities	17,894,567	27,655,923	20,239,296	30,480,248
Fixed income securities	4,578,348	4,829,050	4,620,158	4,427,796
International equity funds	6,375,232	6,886,857	5,332,227	6,052,763
Fixed income funds	5,166,425	5,890,265	5,166,425	5,729,759
Flexible capital *	21,856,072	23,199,834	20,057,633	23,169,193
 Non-marketable investments				
Private equity	4,251,056	7,195,097	3,600,805	5,708,731
Private real assets	<u>5,348,281</u>	<u>5,996,162</u>	<u>4,859,966</u>	<u>5,574,933</u>
	 <u>\$ 66,207,727</u>	 <u>\$ 82,390,934</u>	 <u>\$ 66,556,314</u>	 <u>\$ 83,823,227</u>

*Flexible capital strategies broadly refer to long/short equity and absolute return investments. These strategies typically have expanded opportunity sets and are less-benchmark aware. Equity focused strategies seek to capture some upside in equity markets while protecting against the downside during periods of market declines. Absolute return investments (which include but are not limited to long/short credit, merger arbitrage, distressed, and relative value) seek to deliver positive returns which are less correlated to the broad equity and fixed income markets.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Investments by class of net assets consist of the following:

	<u>2019</u>	<u>2018</u>
Without donor restrictions	\$ 80,407,520	\$ 83,823,227
With donor restrictions	<u>1,983,414</u>	<u>-</u>
	<u>\$ 82,390,934</u>	<u>\$ 83,823,227</u>

Non-marketable investments consisted of the following at September 30, 2019:

<u>Fund</u>	<u>Commitment</u>	<u>Interest in Fund</u>	<u>Current Year Contribution</u>	<u>Investment</u>	<u>Return of Capital</u>
<i>Private Equities</i>					
Legacy Venture VI, LLC	\$ 1,000,000	0.4997 %	\$ 20,000	\$ 980,000	\$ 528,790
Legacy Venture VII, LLC	1,000,000	0.3949 %	100,000	980,000	102,067
Legacy Venture VIII, LLC	1,000,000	0.3417 %	250,000	630,000	-
Legacy Venture IX, LLC	1,000,000	0.3200 %	90,000	90,000	-
Borealis Granite Fund, L.P.	1,269,125	5.9672 %	-	1,154,903	368,492
RCP Fund IX, LP	1,000,000	0.2900 %	142,372	844,000	218,498
RCP Fund XI, LP	1,000,000	0.3200 %	250,000	440,000	-
RCP Fund XII, LP	1,000,000	0.2617 %	200,000	280,000	-
RCP Fund XIII, LP	1,000,000	0.2366 %	60,000	60,000	-
RCP Fund XIV, LP	1,000,000	0.5500 %	10,000	10,000	-
				<u>\$ 5,468,903</u>	<u>\$ 1,217,847</u>
<i>Private Real Assets</i>					
NGP Natural Resources XII, LP	\$ 2,000,000	0.1000 %	\$ 226,981	\$ 625,463	\$ -
Juniper Capital II, LP	1,500,000	0.3000 %	170,927	1,286,400	-
Juniper Capital III, LP	1,000,000	0.1500 %	228,118	315,309	-
Lyme Forest Fund V, FB, LP	350,000	0.1200 %	101,925	101,925	-
BPG Investment Partnership VIIA, LP	3,000,000	0.5500 %	-	3,000,000	1,669,161
BPG Investment Partnership VIIIA, LP	1,870,589	0.5500 %	-	1,870,589	1,870,589
AG Realty Fund IX, LP	2,000,000	0.1500 %	150,000	1,698,345	270,000
AG Realty Fund X, LP	1,000,000	0.0400 %	75,000	75,000	-
GEM Realty Fund VI, LP	1,000,000	0.1000 %	130,000	245,000	60,000
				<u>\$ 9,218,031</u>	<u>\$ 3,869,750</u>

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Non-marketable investments consisted of the following at September 30, 2018:

<u>Fund</u>	<u>Commitment</u>	<u>Interest in</u> <u>Fund</u>	<u>Current Year</u> <u>Contribution</u>	<u>Investment</u>	<u>Return of</u> <u>Capital</u>
<i>Private Equities</i>					
Legacy Venture VI, LLC	\$ 1,000,000	0.4997 %	\$ 50,000	\$ 960,000	\$ 301,353
Legacy Venture VII, LLC	1,000,000	0.3949 %	200,000	880,000	24,253
Legacy Venture VIII, LLC	1,000,000	0.3417 %	240,000	380,000	-
Legacy Venture IX, LLC	1,269,125	0.3200 %	-	-	-
Borealis Granite Fund, L.P.	1,000,000	5.9672 %	126,912	1,154,903	368,492
RCP Fund IX, LP	1,000,000	0.2900 %	201,628	701,628	51,628
RCP Fund XI, LP	1,000,000	0.3200 %	150,000	190,000	-
RCP Fund XII, LP	1,000,000	0.2617 %	80,000	80,000	-
RCP Fund XIII, LP	1,000,000	0.2366 %	-	-	-
				<u>\$ 4,346,531</u>	<u>\$ 745,726</u>
<i>Private Real Assets</i>					
NGP Natural Resources XII, LP	\$ 2,000,000	0.1000 %	\$ 398,482	\$ 398,482	\$ -
Juniper Capital II, LP	1,500,000	0.3000 %	444,016	1,115,473	-
Juniper Capital III, LP	1,000,000	0.1500 %	87,191	87,191	-
Lyme Forest Fund V, FB, LP	350,000	0.1200 %	-	-	-
BPG Investment Partnership VIIA, LP	3,000,000	0.5500 %	-	3,000,000	1,184,525
BPG Investment Partnership VIII, LP	1,870,589	0.5500 %	-	1,870,589	1,870,589
AG Realty Fund IX, LP	2,000,000	0.1500 %	375,000	1,548,345	160,000
AG Realty Fund X, LP	1,000,000	0.0400 %	-	-	-
GEM Realty Fund VI, LP	1,000,000	0.1000 %	115,000	115,000	60,000
				<u>\$ 8,135,080</u>	<u>\$ 3,275,114</u>

4. Mission Related Investments

The Foundation loaned the New Hampshire Community Loan Fund, Inc. (NHCLF) \$1,000,000 in July 2004 (renewed in July 2012), \$350,000 in July 2006 (renewed in July 2014 and July 2019), and \$1,000,000 in August 2017, upon renewal in July 2019, an additional \$150,000 increasing the amount loaned to \$2,500,000. The purpose of these loans is to assist the NHCLF to provide access to financing and support for people with low and moderate income. Under the terms of the agreements, NHCLF pays the Foundation based on an interest annual rate of 5%. The principal is due and payable in July 2022, May 2029, and August 2027, respectively.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

5. Fair Value Measurements

U.S. GAAP establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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. Fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair values of assets measured at fair value on a recurring basis are summarized below based on input level:

	<u>Total</u>	<u>Level 1</u>
<u>September 30, 2019</u>		
Investments		
Invested cash equivalents	\$ 737,746	\$ 737,746
Mutual funds		
Equities	27,655,923	27,655,923
Fixed income securities	<u>4,829,050</u>	<u>4,829,050</u>
	33,222,719	<u>\$ 33,222,719</u>
Investments measured at net asset value (NAV)	<u>49,168,215</u>	
Total	<u>\$ 82,390,934</u>	
	<u>Total</u>	<u>Level 1</u>
<u>September 30, 2018</u>		
Investments		
Invested cash equivalents	\$ 2,679,804	\$ 2,679,804
Mutual funds		
Equities	30,480,248	30,480,248
Fixed income securities	<u>4,427,796</u>	<u>4,427,796</u>
	37,587,848	<u>\$ 37,587,848</u>
Investments measured at NAV	<u>46,235,379</u>	
Total	<u>\$ 83,823,227</u>	

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The following table sets forth a summary of the Organization's investments valued using a reported NAV at September 30:

<u>Investment</u>	<u>Fair Value Estimated Using NAV Per Share at September 30</u>		<u>Redemption Frequency</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period</u>
	<u>2019</u>	<u>2018</u>			
Forester Diversified, Ltd.	\$ 5,594,607	\$ 10,206,243	Annually	N/A	95 days
Steben Futures Portfolio Fund, LP	-	1,724,953	Monthly	Minimum account size following redemptions: \$1 million	5 days
Kiltearn Global Equity Fund	-	3,568,291	Monthly	N/A	6 days
Highclere Intl SMID Fund	2,386,857	2,484,472	Monthly	N/A	10 days
Generation IM Global Equity Fund, LLC	3,000,000	-	Quarterly	N/A	30 days
Generation IM Asia Fund	1,500,000	-	Quarterly	N/A	90 days
Colchis P2P Income Fund	3,766,889	3,591,739	Quarterly	N/A	120 days
Stoneridge Alternative Lending Risk Fund	2,123,376	2,138,020	Quarterly	N/A	10 days
Nut Tree Offshore Fund	1,016,734	-	Quarterly	25% quarterly	75 days
Nyes Ledge	4,394,659	-	Annually	1 year lock up	90 days
Varde Credit Partners	990,717	-	Quarterly	25% quarterly	90 days
Anchorage Capital Partners Offshore, Ltd.	1,785,517	1,866,179	Quarterly	Redemptions on quarter- end closest to anniversary. 3% redemption fee if < 2 years	90 days
Davidson Kemper Institutional Partners, LP	3,755,901	3,630,736	Quarterly	Redemption max: 3 consecutive quarters	65 days
Juniper Capital II, LP	1,533,433	1,466,822	N/A	N/A	N/A
Juniper Capital III, LP	310,599	65,633	N/A	N/A	N/A
NGP Natural Resources XII, LP	616,907	411,356	N/A	N/A	N/A
Southpoint Qualified Offshore Fund, Ltd.	2,052,441	1,868,577	Quarterly	25% quarterly	60 days
Lyme Forest Fund	88,996		N/A	N/A	N/A
Legacy Venture VI, LLC	1,754,836	1,596,489	N/A	N/A	N/A
Legacy Venture VII, LLC	1,531,066	1,094,692	N/A	N/A	N/A
Legacy Venture VIII, LLC	700,479	384,457	N/A	N/A	N/A

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

<u>Investment</u>	Fair Value Estimated Using NAV Per Share at September 30 (continued)		<u>Redemption Frequency</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period</u>
	<u>2019</u>	<u>2018</u>			
Legacy Venture IX, LLC	83,454	-	N/A	N/A	N/A
Borealis Granite Fund, L.P.	1,538,671	1,685,990	N/A	N/A	N/A
RCP Fund IX, LP	860,231	733,364	N/A	N/A	N/A
RCP Fund XI, LP	419,633	148,219	N/A	N/A	N/A
RCP Fund XII, LP	254,429	65,520	N/A	N/A	N/A
RCP Fund XIII, LP	42,298	-	N/A	N/A	N/A
RCP Fund XIV, LP	10,000	-	N/A	N/A	N/A
Stone Ridge Reinsurance Risk Premium Interval Fund	3,609,258	3,872,505	Quarterly	Share repurchase program: 5% - 25% of fund's outstanding shares at NAV	Quarterly set date
GEM Realty Fund VI, LP	182,686	60,440	N/A	N/A	N/A
BPG Investment Partnership VIIA, LP	1,223,101	1,729,207	N/A	N/A	N/A
BPG Investment Partnership VIIIA, LP	15,451	119,545	N/A	N/A	N/A
AG Realty Fund IX, LP	1,958,516	1,721,930	N/A	N/A	N/A
AG Realty Fund X, LP	66,473	-	N/A	N/A	N/A
	\$ 49,168,215	\$ 46,235,379			

6. Grants Payable

For the years ended September 30, 2019 and 2018, the Foundation awarded grants totaling \$2,372,211 and \$2,233,948, respectively. As of September 30, 2019 and 2018, the unpaid grants payable balance was \$833,087 and \$918,745, respectively. Future grant payments as of September 30, 2019 are related to grants awarded in fiscal year 2019.

7. Lease Commitments

During the year ended September 30, 2019, the Foundation renewed its operating lease for office space which expires in August 2023. Based on the terms of the lease, the base rent is \$31,725 for the first year of the lease with a 2.5% annual increase thereafter. In addition to base rent, the Foundation is responsible for its share of real estate taxes, insurance, and common area maintenance and utilities that service the property, which is currently \$21,500 annually.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

In addition, during the year ended September 30, 2018, the Foundation entered into an operating lease for a copier. The lease expires in September 2023 and requires a monthly payment of \$195.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 56,358
2021	57,171
2022	58,005
2023	<u>58,859</u>
Total	<u>\$ 230,393</u>

For the years ended September 30, 2019 and 2018, rent expense was \$53,291 and \$49,986, respectively.

8. Concentration of Credit Risk

The Foundation maintains its cash balance in a national bank. The Federal Deposit Insurance Corporation (FDIC) insures the balance up to \$250,000. The bank has collateralized all deposits for the Foundation in excess of the FDIC limit.

In the normal course of business, the Foundation utilizes counterparties which primarily include a bank, investment fund managers, and an investment advisor. In the event that these counterparties do not fulfill their obligations, the Foundation may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Foundation's policy to review, as necessary, the credit standing of each counterparty.

9. Retirement Savings Plan

The Foundation has a 403(b) defined contribution plan covering substantially all of its employees who have completed six months of service. The Foundation contributes 5% of base salary to the plan with no employee contribution required. Additionally, the Foundation matches employee salary deferral contribution dollar for dollar up to an additional 5% of base salary. For the years ended September 30, 2019 and 2018, retirement savings expense was \$74,367 and \$73,699, respectively.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

10. Federal Excise Tax

Federal excise tax expense (benefit) consists of the following for the years ended September 30:

	<u>2019</u>	<u>2018</u>
Current	\$ 23,890	\$ 31,304
Deferred	<u>(16,256)</u>	<u>54,404</u>
	<u>\$ 7,634</u>	<u>\$ 85,708</u>

Temporary differences related to cumulative unrealized gains on investments give rise to the deferred taxes.

11. Funds Held by Others

The Foundation has the right to recommend grant distributions from a donor-advised fund maintained at the New Hampshire Charitable Foundation (NHCF). Pursuant to the terms of the resolution establishing this fund, property contributed by unrelated parties to NHCF is held as a separate fund designated for the benefit of the Foundation. The Board of Directors of NHCF has been granted the power to re-designate the funds contributed by unrelated parties if the Foundation is incapable of fulfilling its mission.

The fund is not included in these financial statements since the fund is not an asset of the Foundation and NHCF has the ability to re-designate funds contributed by unrelated parties. The total market value of the fund was approximately \$476,974 and \$483,767 at September 30, 2019 and 2018, respectively. During 2019, no funds were distributed from this fund. During 2018, \$50,000 was distributed from this fund.

12. Endowment Funds and Net Assets

The State of New Hampshire enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Foundation's endowment consists of a donor-restricted fund established for improving the health of the people of New Hampshire. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted UPMIFA as allowing the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (held in perpetuity) (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions (held in perpetuity) is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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 donor-restricted endowment funds, (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, and (7) the investment policies of the Foundation.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation's current practice is to spend from underwater endowment funds unless otherwise precluded by donor intent or relevant laws and regulations. The Endowment is in the process of revising their spending policy to incorporate a policy for spending from underwater endowment funds. As of September 30, 2019, there were no deficiencies of this nature associated with the individual donor-restricted endowment fund.

Investment Return Objectives, Risk Parameters and Strategies: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income and capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The real return objective for the Foundation is 5% over a long-time horizon, net of any fees. In order to have a reasonable probability of earning this return, the Board of Directors adopts asset allocation policies each year based on the current market conditions. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed in order to avoid exposing the fund to unacceptable levels of risk.

Spending Policy: The Foundation has a spending policy which limits the amount spent from accumulated earnings on funds maintained in perpetuity functioning as endowment as no greater than 6% of the fair market value of the assets of the Foundation's endowment funds (calculated on the basis of market values determined at least quarterly and averaged over a period of 3 or more years). Spending greater than 6% requires approval of at least seventy percent (70%) of the entire Board and thirty (30) days' prior written notice to the Director of Charitable Trusts, Charitable Trusts Unit, Office of the New Hampshire Attorney General. This is consistent with the Foundation's objective to preserve and grow its assets over the long term.

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Changes in endowment net assets for the year ended September 30, 2019 are as follows:

	<u>Board- Designated</u>	Funds Subject to Use or Time <u>Restriction</u>	Funds of Perpetual <u>Duration</u>	<u>Total</u>
Endowment net assets, September 30, 2018	\$ 83,823,227	\$ -	\$ -	\$ 83,823,227
Contributions	-	-	1,950,395	1,950,395
Investment return, net	1,203,136	64,176	-	1,267,312
Endowment assets appropriated for expenditure	31,157	(31,157)	-	-
Withdrawal	<u>(4,650,000)</u>	-	-	<u>(4,650,000)</u>
Endowment net assets, September 30, 2019	<u>\$ 80,407,520</u>	<u>\$ 33,019</u>	<u>\$ 1,950,395</u>	<u>\$ 82,390,934</u>

Changes in endowment net assets as of December 31, 2018 are as follows:

	<u>Board- Designated</u>	Funds Subject to Use or Time <u>Restriction</u>	Funds of Perpetual <u>Duration</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 80,906,700	\$ -	\$ -	\$ 80,906,700
Investment income, net	6,716,527	-	-	6,716,527
Withdrawal	<u>(3,800,000)</u>	-	-	<u>(3,800,000)</u>
Endowment net assets, end of year	<u>\$ 83,823,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,823,227</u>

SUPPLEMENTARY INFORMATION

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Consolidating Statement of Financial Position

September 30, 2019

ASSETS

	Endowment for Health, Inc.	Health Strategies of New Hampshire, Inc.	Eliminations	Consolidated Total
Cash and cash equivalents	\$ 734,029	\$ 310,908	\$ -	\$ 1,044,937
Investments	82,390,934	-	-	82,390,934
Mission related investments	2,500,000	-	-	2,500,000
Grants receivable	-	75,000	(75,000)	-
Prepaid federal excise tax	7,380	-	-	7,380
Other prepaid expenses	<u>32,979</u>	-	-	<u>32,979</u>
 Total assets	 <u>\$ 85,665,322</u>	 <u>\$ 385,908</u>	 <u>\$ (75,000)</u>	 <u>\$ 85,976,230</u>

LIABILITIES AND NET ASSETS

Grants payable	\$ 908,087	\$ -	\$ (75,000)	\$ 833,087
Accounts payable and accrued expenses	61,132	15,400	-	76,532
Deferred tax liability	<u>242,748</u>	-	-	<u>242,748</u>
 Total liabilities	 <u>1,211,967</u>	 <u>15,400</u>	 <u>(75,000)</u>	 <u>1,152,367</u>
 Net assets				
Without donor restrictions	82,469,941	370,508	-	82,840,449
With donor restrictions - appreciation on Futures Fund which is held in perpetuity	33,019	-	-	33,019
With donor restrictions - Futures Fund, held in perpetuity	<u>1,950,395</u>	-	-	<u>1,950,395</u>
 Total net assets	 <u>84,453,355</u>	 <u>370,508</u>	 <u>-</u>	 <u>84,823,863</u>
 Total liabilities and net assets	 <u>\$ 85,665,322</u>	 <u>\$ 385,908</u>	 <u>\$ (75,000)</u>	 <u>\$ 85,976,230</u>

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Consolidating Statement of Activities

Year Ended September 30, 2019

	<u>Endowment for Health, Inc.</u>	<u>Health Strategies of New Hampshire, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Net assets without donor restrictions				
Revenue and net investment income				
Income on investments				
Interest and dividends	\$ 1,180,632	\$ 872	\$ -	\$ 1,181,504
Investment management and custodial fees	(144,660)	-	-	(144,660)
Realized gain on investments	1,299,193	-	-	1,299,193
Unrealized loss on investments	(1,102,369)	-	-	(1,102,369)
Grant income	500	365,855	(279,239)	87,116
Endowment spending draw for operations	<u>31,157</u>	<u>-</u>	<u>-</u>	<u>31,157</u>
Total revenue and net investment income	<u>1,264,453</u>	<u>366,727</u>	<u>(279,239)</u>	<u>1,351,941</u>
Expenses				
Program services				
Grant expense	2,651,450	-	(279,239)	2,372,211
Salaries and benefits	734,441	-	-	734,441
Professional services	87,405	302,131	-	389,536
Building and related expenses	41,596	-	-	41,596
Program support	42,812	49,064	-	91,876
Program operating expenses	<u>28,751</u>	<u>13,338</u>	<u>-</u>	<u>42,089</u>
Total program services	<u>3,586,455</u>	<u>364,533</u>	<u>(279,239)</u>	<u>3,671,749</u>
Management and general				
Salaries and benefits	258,835	-	-	258,835
Professional services	85,003	1,305	-	86,308
Building and related expenses	13,870	-	-	13,870
Administrative support	12,062	-	-	12,062
General operating expenses	33,060	302	-	33,362
Federal excise tax expense	<u>7,626</u>	<u>8</u>	<u>-</u>	<u>7,634</u>
Total management and general	<u>410,456</u>	<u>1,615</u>	<u>-</u>	<u>412,071</u>
Total expenses	<u>3,996,911</u>	<u>366,148</u>	<u>(279,239)</u>	<u>4,083,820</u>
Change in net assets without donor restrictions	<u>(2,732,458)</u>	<u>579</u>	<u>-</u>	<u>(2,731,879)</u>
Net assets with donor restrictions				
Contributions	1,950,395	-	-	1,950,395
Investment income, net	64,176	-	-	64,176
Endowment spending draw for operations	<u>(31,157)</u>	<u>-</u>	<u>-</u>	<u>(31,157)</u>
Change in net assets with donor restrictions	<u>1,983,414</u>	<u>-</u>	<u>-</u>	<u>1,983,414</u>
Total change in net assets	<u>(749,044)</u>	<u>579</u>	<u>-</u>	<u>(748,465)</u>
Net assets, beginning of year	<u>85,202,399</u>	<u>369,929</u>	<u>-</u>	<u>85,572,328</u>
Net assets, end of year	<u>\$ 84,453,355</u>	<u>\$ 370,508</u>	<u>\$ -</u>	<u>\$ 84,823,863</u>

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY**Consolidating Statement of Financial Position****September 30, 2018****ASSETS**

	Endowment for Health, Inc.	Health Strategies of New Hampshire, Inc.	Consolidated Total
Cash and cash equivalents	\$ 207,344	\$ 371,937	\$ 579,281
Investments	83,823,227	-	83,823,227
Mission related investments	2,350,000	-	2,350,000
Prepaid federal excise tax	16,656	-	16,656
Other prepaid expenses	<u>38,988</u>	<u>-</u>	<u>38,988</u>
Total assets	<u>\$ 86,436,215</u>	<u>\$ 371,937</u>	<u>\$ 86,808,152</u>

LIABILITIES AND NET ASSETS

Grants payable	\$ 918,745	\$ -	\$ 918,745
Accounts payable and accrued expenses	56,067	2,008	58,075
Deferred tax liability	<u>259,004</u>	<u>-</u>	<u>259,004</u>
Total liabilities	<u>1,233,816</u>	<u>2,008</u>	<u>1,235,824</u>
Net assets without donor restrictions	<u>85,202,399</u>	<u>369,929</u>	<u>85,572,328</u>
Total liabilities and net assets	<u>\$ 86,436,215</u>	<u>\$ 371,937</u>	<u>\$ 86,808,152</u>

ENDOWMENT FOR HEALTH, INC. AND SUBSIDIARY

Consolidating Statement of Activities

Year Ended September 30, 2018

	Endowment for <u>Health, Inc.</u>	Health Strategies of New <u>Hampshire, Inc.</u>	<u>Eliminations</u>	Consolidated <u>Total</u>
Net assets without donor restrictions				
Revenue and net investment income				
Income on investments				
Interest and dividends	\$ 1,122,395	\$ 517	\$ -	\$ 1,122,912
Investment management and custodial fees	(159,956)	-	-	(159,956)
Realized gain on investments	2,158,810	-	-	2,158,810
Unrealized gain on investments	3,626,919	-	-	3,626,919
Grant income	<u>-</u>	<u>303,408</u>	<u>(253,458)</u>	<u>49,950</u>
Total revenue and net investment income	<u>6,748,168</u>	<u>303,925</u>	<u>(253,458)</u>	<u>6,798,635</u>
Expenses				
Program services				
Grant expense	2,487,406	-	(253,458)	2,233,948
Salaries and benefits	719,713	-	-	719,713
Professional services	81,892	268,140	-	350,032
Building and related expenses	45,909	-	-	45,909
Program support	49,089	32,501	-	81,590
Program operating expenses	<u>29,274</u>	<u>3,212</u>	<u>-</u>	<u>32,486</u>
Total program services	<u>3,413,283</u>	<u>303,853</u>	<u>(253,458)</u>	<u>3,463,678</u>
Management and general				
Salaries and benefits	256,145	-	-	256,145
Professional services	88,914	90	-	89,004
Building and related expenses	15,321	-	-	15,321
Administrative support	9,818	-	-	9,818
General operating expenses	24,119	160	-	24,279
Federal excise tax expense	<u>85,708</u>	<u>-</u>	<u>-</u>	<u>85,708</u>
Total management and general	<u>480,025</u>	<u>250</u>	<u>-</u>	<u>480,275</u>
Total expenses	<u>3,893,308</u>	<u>304,103</u>	<u>(253,458)</u>	<u>3,943,953</u>
Change in net assets without donor restrictions	2,854,860	(178)	-	2,854,682
Net assets, beginning of year	<u>82,347,539</u>	<u>370,107</u>	<u>-</u>	<u>82,717,646</u>
Net assets, end of year	<u>\$ 85,202,399</u>	<u>\$ 369,929</u>	<u>\$ -</u>	<u>\$ 85,572,328</u>