KPMG

MOTHER CABRINI HEALTH FOUNDATION, INC.

Financial Statements

December 31, 2018

(With Independent Auditors’ Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Mother Cabrini Health Foundation, Inc.:

We have audited the accompanying financial statements of Mother Cabrini Health Foundation, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statement of activities and cash flows for the period from May 2, 2018 (date of inception) to December 31, 2018, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 Mother Cabrini Health Foundation, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the period from May 2, 2018 (date of inception) to December 31, 2018 in accordance with U.S. generally accepted accounting principles.

KPMG LLP

January 14, 2020

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MOTHER CABRINI HEALTH FOUNDATION, INC.

Statement of Financial Position

December 31, 2018

Assets		
Cash (note 3)	$	1,213,656
Investment (note 4)		3,284,938,079
Investment related receivables		29,198,362
Other assets		69,628
Deferred tax asset		29,633
Right-of-use asset under operating lease (note 8)		5,704,816
Total assets	$	3,321,154,174
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$	1,074,572
Amounts held for others (note 6)		390,280,207
Other liability (note 6)		92,348,992
Lease liability under operating lease (note 8)		5,704,816
Total liabilities		489,408,587
Net assets:		
Without donor restrictions		2,831,745,587
Total net assets		2,831,745,587
Total liabilities and net assets	$	3,321,154,174

See accompanying notes to financial statements.

MOTHER CABRINI HEALTH FOUNDATION, INC.

Statement of Activities

Period from May 2, 2018 (date of inception) to December 31, 2018

Change in net assets without donor restrictions:		
Revenue:		
Contributions, net (note 2(e))	$	2,839,903,950
Net investment loss		(1,452,034)
Total revenue		2,838,451,916
Expenses:		
Operations support (note 9)		1,118,286
Total expenses		1,118,286
Non-operating:		
Discount on present value of amounts held for others and other liability (note 6)		5,588,043
Increase in net assets without donor restrictions		2,831,745,587
Net assets, at beginning of period		—
Net assets, at end of period	$	2,831,745,587

See accompanying notes to financial statements.

MOTHER CABRINI HEALTH FOUNDATION, INC.

Statement of Cash Flows

Period from May 2, 2018 (date of inception) to December 31, 2018

Cash flows from operating activities:		
Increase in net assets	$	2,831,745,587
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized loss on investment		16,022,341
Amounts held for others and other liabilities		482,629,199
Changes in operating assets and liabilities:		
Other assets		(69,628)
Deferred tax asset		(29,633)
Accounts payable and accrued expenses		1,074,572
Net cash provided by operating activities		3,331,372,438
Cash flows from investing activities:		
Proceeds from sale of investments		3,558,910,903
Purchase of investments		(6,889,069,685)
Net cash used by investing activities		(3,330,158,782)
Net increase in cash		1,213,656
Cash at beginning of period		—
Cash at end of period	$	1,213,656
Non cash:		
Securities transferred	$	(768,646,521)

See accompanying notes to financial statements.

(1) Organization and Purpose

Mother Cabrini Health Foundation, Inc. (the "Foundation") is a tax-exempt private foundation that works through grant making to improve the health and well-being of vulnerable New Yorkers, bolster the health outcomes of diverse communities, eliminate barriers to care and bridge gaps in health services. The Foundation was established in May 2018 as a New York State Not-for-Profit Corporation. Its offices are located in New York, New York.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for external financial reporting by not-for-profit organizations. The financial statements focus on the Foundation as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. The Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that will be met by either actions of the Foundation or the passage of time.

Revenues and gains and losses on investments and other assets are reported as changes in net assets without donor restrictions unless limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in net assets without donor restrictions. For the period ended December 31, 2018, the Foundation does not have net assets with donor restrictions.

(b) Cash and Cash Equivalents

The Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents, other than those securities held in investment accounts.

(c) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. The Foundation discloses fair value measurements by level within that hierarchy. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that the market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation as of the reporting date. Unobservable inputs reflect the Foundation's assumptions about the input market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices or published net asset value for alternative investments with characteristics similar to a mutual fund in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. Since valuations are based on quoted prices that are readily available and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(d) Investments

Investments with readily determinable fair values are reported at fair value based upon quoted market prices or published net asset values for alternative investments with characteristics similar to a mutual fund. Other alternative investments (nontraditional, not readily marketable vehicles) such as certain hedge funds, private equity, alternative hedged strategies and real assets are reported at net asset value, as a practical expedient for estimated fair value, as provided by the investment managers of the respective funds. These values are reviewed and evaluated by the Foundation's management for reasonableness. The reported values may differ from the values that would have been reported had a ready market for these investments existed. All other investments are stated at fair value based upon quoted market prices in active markets.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses are determined on the basis of average cost of securities sold and are reflected in the consolidated statement of activities. Dividend income is recorded on the ex-dividend date, and interest income is recorded on an accrual basis.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

(e) Contributions

Contributions received during the period ended December 31, 2018 represent the net proceeds from the sale of New York Catholic Health Plans (also known as Fidelis) to Centene Corporation (Centene) as well as the transfer of certain investments and cash accounts previously held by Fidelis. Proceeds are netted with the present value of amounts held for others and other liabilities totaling $390,280,207 and $92,348,992, respectively. The Foundation does not expect to receive contributions from other sources in the future but may receive additional contributions from the finalization of sales transaction between Fidelis and Centene (see note 5).

(f) Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is a private foundation as defined in Section 509(a) of the Code. As required by the Code, the Foundation will distribute annually at least 5% of the monthly average of the fair market value of its assets no later than the 12-month period following the end of its fiscal year.

The Foundation recognizes the effects of income tax positions only if those positions are more likely than not to be sustained in the future. The Foundation has concluded that there were no uncertainties to disclose.

(g) Grants Made

Grants made, including multiyear grants and unconditional promises to give, are discounted to reflect the present value of future cash flows at a risk adjusted rate. Grants are reported as an expense and liability in the period made or if conditional, when the Foundation deems that the terms and conditions of the grant agreements have been substantially met. No grants were awarded for the period ended December 31, 2018 due to the startup phase of the Foundation.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of the financial statements include the fair value of investments, discount on amounts held for others, other liabilities, right-of-use asset under operating lease, lease liability under operating lease and deferred federal excise tax. Actual results could differ from those estimates.

(i) Functional Allocation of Expenses

The Foundation presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas. Expenses attributed to multiple categories are allocated based on either management estimates of time and effort or building occupancy square footage. No expenses were allocated to multiple categories in 2018.

(j) Measure of Operations

The Foundation includes in its measure of operations all expenses that are integral to its program and supporting services. The measure of operations excludes non-cash charges related to amortization of the discount for amounts held for others and other liabilities.

(3) Concentration of Credit Risk

At December 31, 2018, the Foundation’s operating cash was held by a single financial institution. All but $250,000 was not insured by the Federal Deposit Insurance Corporation and Credit Guarantee Fund.

(4) Investments

The following tables present the fair value hierarchy of investments, the only financial instruments of the Foundation that are measured a fair value on a recurring basis, at December 31, 2018:

		Total	Quoted Prices (Level 1)
Cash and cash equivalents	$	1,101,558	1,101,558
Equities:			
Common Stock		266,685,626	266,685,626
Preferred Stock		743,186	743,186
Fixed income:			
Government Agencies		2,724,376,724	2,724,376,724
Asset Backed		26,896,182	26,896,182
Corporate Bonds		147,792,121	147,792,121
Commercial Mortgage Backed		10,933,689	10,933,689
Non-Government Backed CMO		2,242,238	2,242,238
Other Fixed Income		102,635,771	102,635,771
Derivative Offsets		1,530,984	1,530,984
	$	3,284,938,079	3,284,938,079

The majority of investments have daily redemption periods with the exception of one that has a semi-monthly redemption period with a five-day notice period. The semi-monthly redemption investment is included in common stock and valued at $31,283,878 as of December 31, 2018.

At the sale of Fidelis to Centene, cash and investment holdings were transferred to the Foundation. The majority of the cash was invested in bonds and the remaining investment holdings remained in the existing brokerage accounts. In 2019, the portfolio is being transitioned into a customized portfolio to meet the objectives of the Foundation.

(5) Other Assets

Pursuant to the terms of the sale of Fidelis, the Foundation will be the beneficiary of further assets. The assets include the interest in a Limited Liability Corporation as well as an escrow account established during the sale of Fidelis to Centene. The Limited Liability Corporation's sole asset is the previous headquarters of Fidelis located in Rego Park, Queens New York. The escrow account was established to settle residual transaction claims approved by both Fidelis and Centene. As of December 31, 2018, the assets were being managed by an entity appointed by the former corporate members of Fidelis and control had not been transferred to the Foundation nor was a determination of final valuation available.

(6) Amounts Held for Others and Other Liabilities

Pursuant to certain transactions occurring during the sale of Fidelis to Centene, the Foundation has recognized in its statement of financial position amounts held for others and other liabilities in the amount of $400,000,000 and $100,000,000, respectively. The amounts are expected to be disbursed in fiscal year 2020 through 2022 and have been discounted to present value using treasury rates ranging from 2.44% to 2.81%, resulting in a non-operating charge of $5,588,043 for the period ended December 31, 2018.

(7) Taxes

The Foundation is liable for a federal excise tax of 2% of its net investment income, which includes realized capital gains. However, this tax is reduced to 1% if certain conditions are met. The Foundation did not meet the requirements for the 1% tax for the period ended December 31, 2018 since a private foundation cannot qualify under IRC Section 4940(e) for its first year of existence, therefore, taxes are estimated at 2% of net investment income for 2018. Additionally, certain of the Foundation's investments may give rise to unrelated business income tax liabilities. Such tax liabilities for 2018 are not material to the accompanying financial statements; however the provision for taxes, as of December 31, 2018, includes an estimate of tax liabilities for unrelated business income.

Deferred taxes principally arise from the differences between the cost value and fair value of investments. Deferred taxes represent 2% of unrealized losses at December 31, 2018. For the period ended December 31, 2018 the deferred tax asset was $29,633.

As a result of the 2017 Tax Cuts and Jobs Act, the Foundation is subject to a new excise tax under IRC Section 4960. The amount is not material to the accompanying financial statements.

(8) Commitment and Contingencies

The Foundation elected to early adopt Accounting Standards Update 2016-02, *Leases (Topic 842)* for the period ended December 31, 2018. As of December 31, 2018, the Foundation had one lease, for which the associated assets and liabilities are classified on the statement of financial position as an operating lease. The term on the initial lease expires in April 2024, with a five-year extension. As of the date of the financial statements, the extension was exercised and therefore the lease was amortized over the ten-year period ending April 2029 at a discount rate of 3%, which was determined based on the risk free rate. The following is a schedule of the minimum future lease commitments for an operating lease having initial or remaining non-cancelable lease terms greater than one year as of December 31, 2018:

Years		Amount
2019	$	461,226
2020		691,840
2021		691,840
2022		691,840
2023		691,840
Thereafter		3,459,200
	$	6,687,786

Rent expense, included in operations support on the statement of activities, amounted to $78,127 for the period ended December 31, 2018.

(9) Liquidity and Availability

The Foundation's financial assets available for grants and general expenditures within one year of December 31, 2018 are as follows:

Cash and cash equivalents	$	1,213,656
Investments		3,284,938,079
Investment related receivable		29,198,362
Total financial assets		3,315,350,097
Less:		
Amounts held for others and other liability		(500,000,000)
Financial assets available for general expenditures within one year	$	2,815,350,097

The Foundation's policy is to structure its financial assets to be available and liquid for grant making and its related operational expenses, liabilities and other financial obligations. Although the Foundation does not intend to liquidate investments other than for amounts needed for general expenditures budgeted during the year, these amounts could be made available if needed.

(10) Functional Allocation of Expenses

Grant making activities of the Foundation involve reviewing proposals, awarding, monitoring and evaluating grants as well as the actual payment of grants have been allocated to the program function. All other administrative expenses related to managing the operations have been allocated to supporting activities. No programmatic expenses were incurred during 2018 as the operations of the Foundation did not fully commence until 2019 due to the start up phase of the Foundation. The composition of expenses for the period ended December 31, 2018 is as follows:

		Management and General
Compensation and benefits	$	113,077
Professional fees		925,627
Occupancy and other		79,582
	$	1,118,286

(11) Subsequent Events

In connection with the preparation of the financial statements, the Foundation has evaluated subsequent events after the date of the statement of financial position as of December 31, 2018 through January 14, 2020, which was the date the financial statements were available to be issued. In September 2019, the Foundation took control of the Limited Liability Corporation that owned the Fidelis Rego Park facilities discussed in note 5. Management is currently evaluating the value of the entity. On December 31, 2019, the Foundation received proceeds of $346 million from the settlement of the escrow account discussed in note 5.