
Michael Reese Health Trust

Financial Report
June 30, 2020

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Independent Auditor's Report

To the Board of Directors
Michael Reese Health Trust

We have audited the accompanying financial statements of Michael Reese Health Trust (Michael Reese), which comprise the statement of financial position as of June 30, 2020 and 2019 and the related statements of activities and changes in net assets, functional expenses, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Michael Reese Health Trust as of June 30, 2020 and 2019 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 3, the financial statements include investments value at \$132,619,912 (93.8 percent of net assets) and \$135,631,901 (95.6 percent of net assets) at June 30, 2020 and 2019, respectively, whose fair value has been estimated at net asset value in the absence of observable inputs used to determine market values. Management's estimates are based on information provided by the fund managers of the general partners. Our opinion is not modified with respect to this matter.

To the Board of Directors
Michael Reese Health Trust

As described in Note 2 to the financial statements, significant uncertainty exists surrounding the COVID-19 pandemic. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

November 9, 2020

Michael Reese Health Trust

Statement of Financial Position

June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|------------------------------|------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 7,512,316 | \$ 5,308,314 |
| Investments | 132,619,912 | 135,631,901 |
| Contribution receivable | 100,000 | - |
| Federal excise tax deposits | 198,811 | 215,516 |
| Prepaid expenses and other assets | 43,499 | 27,012 |
| Beneficial interest in trusts | 4,483,711 | 4,562,815 |
| Equipment - Net of accumulated depreciation of \$72,737 and \$67,581, respectively | 9,814 | 14,970 |
| Total assets | <u><u>\$ 144,968,063</u></u> | <u><u>\$ 145,760,528</u></u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Grants payable | \$ 3,269,073 | \$ 3,614,843 |
| Deferred federal excise tax | 140,184 | 52,664 |
| Accrued expenses | 199,391 | 169,310 |
| Total liabilities | 3,608,648 | 3,836,817 |
| Net Assets | | |
| Without donor restrictions | 112,865,447 | 114,430,899 |
| With donor restrictions | 28,493,968 | 27,492,812 |
| Total net assets | <u>141,359,415</u> | <u>141,923,711</u> |
| Total liabilities and net assets | <u><u>\$ 144,968,063</u></u> | <u><u>\$ 145,760,528</u></u> |

Michael Reese Health Trust

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2020 and 2019

| | 2020 | | | 2019 | | |
|---|----------------------------|-------------------------|-----------------------|----------------------------|-------------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue | | | | | | |
| Trusts, estates, and contributions | \$ 463,174 | \$ 510,000 | \$ 973,174 | \$ 452,523 | \$ - | \$ 452,523 |
| Interest and dividends - Net of investment fees of \$538,369 and \$717,556 in 2020 and 2019, respectively | 70,598 | 16,282 | 86,880 | (173,931) | (34,191) | (208,122) |
| Net realized and unrealized gains on investments | 6,207,598 | 1,311,167 | 7,518,765 | 4,598,322 | 903,932 | 5,502,254 |
| Miscellaneous income | 2,919 | - | 2,919 | 117,602 | - | 117,602 |
| Net assets released from restrictions | 757,189 | (757,189) | - | 792,660 | (792,660) | - |
| Total revenue | 7,501,478 | 1,080,260 | 8,581,738 | 5,787,176 | 77,081 | 5,864,257 |
| Expenses | | | | | | |
| Allocation of expenses: | | | | | | |
| Programs | 7,881,697 | - | 7,881,697 | 7,031,394 | - | 7,031,394 |
| Management and general | 1,130,960 | - | 1,130,960 | 950,361 | - | 950,361 |
| Fundraising | 54,273 | - | 54,273 | 20,851 | - | 20,851 |
| Total expenses | 9,066,930 | - | 9,066,930 | 8,002,606 | - | 8,002,606 |
| (Decrease) Increase in Net Assets - Before change in value of beneficial interests in trusts | (1,565,452) | 1,080,260 | (485,192) | (2,215,430) | 77,081 | (2,138,349) |
| Change in Value of Beneficial Interests in Trusts | - | (79,104) | (79,104) | - | (76,199) | (76,199) |
| (Decrease) Increase in Net Assets | (1,565,452) | 1,001,156 | (564,296) | (2,215,430) | 882 | (2,214,548) |
| Net Assets - Beginning of year | 114,430,899 | 27,492,812 | 141,923,711 | 116,646,329 | 27,491,930 | 144,138,259 |
| Net Assets - End of year | \$ 112,865,447 | \$ 28,493,968 | \$ 141,359,415 | \$ 114,430,899 | \$ 27,492,812 | \$ 141,923,711 |

Statement of Functional Expenses

Year Ended June 30, 2020

| | Programs | Management and General | Fundraising | Total |
|--|---------------------|---------------------------|------------------|---------------------|
| Salaries | \$ 389,750 | \$ 445,643 | \$ 30,966 | \$ 866,359 |
| Taxes and benefits | 152,488 | 151,354 | 9,710 | 313,552 |
| Total salaries and related expenses | 542,238 | 596,997 | 40,676 | 1,179,911 |
| Grants and assistance | 7,070,957 | - | - | 7,070,957 |
| Special events | 547 | 2,913 | - | 3,460 |
| Professional fees | 78,288 | 232,690 | 11,309 | 322,287 |
| Public relations and marketing | 31,290 | 58,806 | - | 90,096 |
| Depreciation | 5,156 | - | - | 5,156 |
| Equipment rental and maintenance | 23,691 | 17,101 | 280 | 41,072 |
| Occupancy | 52,333 | 72,866 | 1,672 | 126,871 |
| Printing and publications | 4,186 | 5,380 | - | 9,566 |
| Conferences and meetings | 9,024 | 138 | - | 9,162 |
| Supplies | 6,539 | 1,651 | 230 | 8,420 |
| Telecommunications | 13,279 | 4,434 | - | 17,713 |
| Training | 510 | 194 | - | 704 |
| Transportation and travel | 11,264 | 5,869 | 69 | 17,202 |
| Dues and subscriptions | 18,799 | 2,768 | - | 21,567 |
| UBIT and excise taxes | - | 123,051 | - | 123,051 |
| Other expenses | 13,557 | 3,444 | 37 | 17,038 |
| Bank charges and fees | 39 | 2,658 | - | 2,697 |
| Total expenses | \$ 7,881,697 | \$ 1,130,960 | \$ 54,273 | \$ 9,066,930 |

Statement of Functional Expenses

Year Ended June 30, 2019

| | Programs | Management and General | Fundraising | Total |
|-------------------------------------|---------------------|---------------------------|------------------|---------------------|
| Salaries | \$ 301,354 | \$ 396,722 | \$ 9,818 | \$ 707,894 |
| Taxes and benefits | 133,056 | 162,068 | 5,057 | 300,181 |
| Total salaries and related expenses | 434,410 | 558,790 | 14,875 | 1,008,075 |
| Grants and assistance | 6,387,610 | - | - | 6,387,610 |
| Special events | 719 | 2,157 | - | 2,876 |
| Professional fees | 31,243 | 238,153 | 4,158 | 273,554 |
| Public relations and marketing | 19 | 62,965 | - | 62,984 |
| Depreciation | 4,958 | 110 | 13 | 5,081 |
| Equipment rental and maintenance | 34,215 | - | - | 34,215 |
| Occupancy | 62,104 | 57,609 | 1,805 | 121,518 |
| Printing and publications | 4,244 | 1,599 | - | 5,843 |
| Conferences and meetings | 709 | 6,279 | - | 6,988 |
| Supplies | 7,327 | 62 | - | 7,389 |
| Telecommunications | 15,279 | 279 | - | 15,558 |
| Training | 417 | 632 | - | 1,049 |
| Transportation and travel | 12,596 | 10,658 | - | 23,254 |
| Dues and subscriptions | 19,427 | - | - | 19,427 |
| Other expenses | 16,117 | 10,651 | - | 26,768 |
| Bank charges and fees | - | 417 | - | 417 |
| Total expenses | \$ 7,031,394 | \$ 950,361 | \$ 20,851 | \$ 8,002,606 |

Statement of Cash Flows

Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|----------------------------|----------------------------|
| Cash Flows from Operating Activities | | |
| Decrease in net assets | \$ (564,296) | \$ (2,214,548) |
| Adjustments to reconcile decrease in net assets to net cash from operating activities: | | |
| Depreciation | 5,156 | 5,081 |
| Realized and unrealized gains on investment | (7,518,765) | (5,502,254) |
| Change in value of beneficial interests in trusts | 79,104 | 76,199 |
| Changes in operating assets and liabilities that (used) provided cash: | | |
| Contribution receivable | (100,000) | - |
| Federal excise tax deposits | 16,705 | (212,343) |
| Prepaid expenses and other assets | (16,487) | 1,477 |
| Grants payable | (345,770) | (396,810) |
| Deferred federal excise tax | 87,520 | (73,660) |
| Accrued expenses | 30,081 | (48,344) |
| | <u>(8,326,752)</u> | <u>(8,365,202)</u> |
| Net cash used in operating activities | | |
| Cash Flows from Investing Activities | | |
| Proceeds from sales of investments | 11,428,977 | 15,561,737 |
| Purchases of investments | (898,223) | (3,669,288) |
| Capital expenditures | - | (6,341) |
| | <u>10,530,754</u> | <u>11,886,108</u> |
| Net cash provided by investing activities | | |
| Net Increase in Cash and Cash Equivalents | 2,204,002 | 3,520,906 |
| Cash and Cash Equivalents - Beginning of year | <u>5,308,314</u> | <u>1,787,408</u> |
| Cash and Cash Equivalents - End of year | <u>\$ 7,512,316</u> | <u>\$ 5,308,314</u> |

June 30, 2020 and 2019

Note 1 - Nature of Business

Michael Reese Health Trust (Michael Reese) is a public grant-making foundation working in the Chicago metropolitan area to improve the health, lives, and futures of those who face the greatest challenges to getting and staying healthy. Since 1991, it has invested more than \$100 million in diverse nonprofit organizations, programs, and initiatives that are having a lasting impact in Chicago communities.

Living a long, healthy life should not be determined by your ZIP code. Yet health disparities are pervasive. As a grant-maker, Michael Reese supports organizations that provide care and services where they are needed most, recognizing that safe neighborhoods free from violence, affordable housing, behavioral health services in community settings, a living wage, dental care alongside primary care, and access to other services are all critical to health and well-being.

Because access to care and better outcomes are shaped by governmental and institutional programs, Michael Reese supports organizations fighting to preserve the safety net and works to improve policy and practices to meet the needs of low-income populations.

In addition, Michael Reese funds health policy advocacy to improve our overall health care delivery system and convenes and connects providers and thought leaders across sectors. Michael Reese seeks to break down silos; exchange ideas; and collectively tackle big, complex challenges.

Michael Reese's grant programs currently focus on the following:

- Preserving and strengthening safety net programs to make health care accessible and affordable
- Building collaborations between health care providers and those working to end homelessness
- Expanding and strengthening school-based behavioral health services to help young people cope with adversity
- Integrating oral health with primary care so it is more accessible to all
- Creating safe neighborhoods and communities that are free from violence
- Supporting cross-sector collaborations and providing long-term counseling to repair the damage of interpersonal and domestic violence and help individuals and families thrive
- Funding programs that offer career pathways in the health care workforce to boost social mobility and economic security
- Supporting a healthy Jewish community

Michael Reese honors and builds on the Jewish legacy and the values of its predecessor, Michael Reese Hospital, which welcomed everyone regardless of race, ethnicity, or national origin. From 1875 to 1991, Michael Reese Hospital served and healed communities in Chicago with compassion; dedication; and an unwavering commitment to people, innovation, and the idea that care should not depend on the ability to pay. Today, Michael Reese carries forward this commitment through grant making, convening, and other community engagement.

Note 2 - Significant Accounting Policies

Basis of Accounting

Michael Reese maintains its accounting records and prepares its financial statements on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America, which requires Michael Reese to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

Michael Reese adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. Michael Reese adopted the ASU effective July 1, 2019 on a modified prospective basis. The adoption of the ASU did not result in a restatement of the 2019 financial information.

Classification of Net Assets

Net assets of Michael Reese are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of Michael Reese.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Michael Reese or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Cash Equivalents

Michael Reese considers all investments with an original maturity of three months or less when purchased to be cash equivalents.

Michael Reese maintains its cash and cash equivalents in bank deposit accounts at Wintrust Bank, Fifth Third Bank, and Charles Schwab Institutional, which at times may exceed federally insured limits. Michael Reese has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments and Related Income, Gains, and Losses

Investments are presented in the financial statements at fair value.

Investment income, gains, losses, and any investment-related expenses are recorded as changes in net assets without donor restrictions in the statement of activities and changes in net assets unless their use is temporarily restricted by explicit donor stipulation or law. In the absence of donor stipulations or law to the contrary, losses on the investment of a donor-restricted endowment fund are recognized as reductions of net assets with donor restrictions to the extent that donor-imposed restrictions on net appreciation of the funds have not been met before the loss occurs. Any remaining loss reduces net assets without donor restrictions.

Earnings on net assets with donor restrictions for endowment principal, including realized and unrealized gains or losses, are recorded as investment income with donor restrictions based on specific endowment restrictions.

Michael Reese's investment portfolio is subject to various risks, such as interest rate, market, and credit risks. Because of these risks, it is possible that changes in the value of the investments may occur and that such changes could materially affect Michael Reese's financial statements.

Note 2 - Significant Accounting Policies (Continued)

Equipment

Equipment is stated at its estimated market value at the date donated or at cost, if purchased. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are currently five years.

Beneficial Interest in Trusts

Michael Reese was named an income beneficiary for various beneficial interests in perpetual trusts. Under the terms of the perpetual trusts, Michael Reese is to receive a portion of the trusts' annual net income based on the percentage of the trust allocated to Michael Reese. Payments from these entities range between 10 percent to 100 percent of the net income generated by these trusts.

In addition, Michael Reese is the income beneficiary of a perpetual trust for which the amount of the income distribution rests at the discretion of the advisory committee of this perpetual trust. Due to the uncertainty of the distribution amounts, if any, the financial statements do not reflect the fair value of this perpetual trust.

Income from all trusts is recorded at the time the payment is received. Income of \$373,345 and \$391,837 (included in trusts, estates, and contributions of \$973,174 and \$452,523 per the statement of activities and changes in net assets) was received from these entities during the years ended June 30, 2020 and 2019, respectively.

Grants Payable

Grants payable consists of unconditional grants payable within one year.

Trusts, Estates, and Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the period in which the gift is received are both reported as support without donor restrictions. Other restricted gifts are reported as support with donor restrictions and net assets with donor restrictions.

Federal Income Taxes

Michael Reese operates as a public foundation and is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

Functional Allocation of Expenses

Costs of providing the grant program and support services have been reported on a functional basis in the statement of activities and changes in net assets. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Costs are charged to program services and supporting services on an actual basis when available. Salaries and related expenses are allocated on the basis of time study conducted by management. Although the methods of allocation used are considered appropriate, other methods could be used that could produce different amounts.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

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

Risks and Uncertainties from COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As a result of COVID-19, Michael Reese's investment portfolio incurred a significant decline in fair value, followed by a significant increase in fair value, consistent with the general volatility in financial markets. However, because the values of individual investments fluctuate with market conditions and due to market volatility, the amount of gains and losses that will be recognized in subsequent periods, if any, cannot be determined. No impairments were recorded as of the statement of financial position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while Michael Reese's activities, functional expenses, investments, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Upcoming Accounting Change

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for Michael Reese's year ending June 30, 2023 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented. The new lease standard is expected to have an effect on Michael Reese's financial statements as management intends to enter into a new office space lease in the future, which will be classified as an operating lease.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 9, 2020, which is the date the financial statements were available to be issued.

On September 11, 2020, Michael Reese entered into a loan agreement with a third party in which Michael Reese agreed to loan \$1,000,000. The loan accrues no interest, and the principal balance will be due and payable on September 30, 2021.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that Michael Reese has the ability to access.

Note 3 - Fair Value Measurements (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Net asset value inputs include interests in investment companies at year end where the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Michael Reese's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following table presents information about Michael Reese's assets measured at fair value on a recurring basis at June 30, 2020 and 2019 and the valuation techniques used by Michael Reese to determine those fair values:

| | Assets Measured at Fair Value on a Recurring Basis at June 30, 2020 | | | |
|---|--|--|--|-----------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at June 30, 2020 |
| Assets | | | | |
| Beneficial interest in trusts | \$ - | \$ - | \$ 4,483,711 | \$ 4,483,711 |
| Investments measured at NAV: | | | | |
| Multistrategy hedge funds - Absolute return fund | | | | 768 |
| Pooled endowment portfolio | | | | 116,429,695 |
| Private equity funds | | | | 16,189,449 |
| Total investments measured at NAV | | | | 132,619,912 |
| Total assets | | | | \$ 137,103,623 |

June 30, 2020 and 2019

Note 3 - Fair Value Measurements (Continued)

| | <u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2019</u> | | | |
|-----------------------------------|--|--------------------------|---------------------|-----------------------|
| | <u>Quoted Prices in</u> | | | |
| | <u>Active Markets</u> | <u>Significant Other</u> | <u>Significant</u> | |
| | <u>for Identical</u> | <u>Observable</u> | <u>Unobservable</u> | |
| | <u>Assets</u> | <u>Inputs</u> | <u>Inputs</u> | <u>Balance at</u> |
| | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> | <u>June 30, 2019</u> |
| Assets | | | | |
| Beneficial interest in trusts | \$ | - | \$ | - |
| | | | \$ | 4,562,815 |
| | | | \$ | 4,562,815 |
| Investments measured at NAV: | | | | |
| Multistrategy hedge funds: | | | | |
| International fund | | | | 3,271,146 |
| Absolute return fund | | | | 12,338 |
| Pooled endowment portfolio | | | | 116,252,489 |
| Private equity funds | | | | <u>16,095,928</u> |
| Total investments measured at NAV | | | | <u>135,631,901</u> |
| Total assets | | | | <u>\$ 140,194,716</u> |

Level 3 Inputs

Investments in Level 3 assets are composed of beneficial interests in perpetual trusts. The beneficial interest in trusts is stated at the estimated fair value, which is based on the percentage of the beneficial interest in trust designated to Michael Reese applied to the total fair value of the beneficial interest in trust, which is based primarily on quoted market prices. The changes in the fair value of the underlying trust assets, as determined by the trustees that hold and manage these assets, are recognized in the statement of activities and changes in net assets in the periods in which they occur.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2020 and 2019 are as follows:

| | <u>Beneficial</u> |
|--|---------------------------|
| | <u>Interest in Trusts</u> |
| Balance at July 1, 2019 | \$ 4,562,815 |
| Change in value of beneficial interest in trusts | <u>(79,104)</u> |
| Balance at June 30, 2020 | <u>\$ 4,483,711</u> |
| Balance at July 1, 2018 | \$ 4,639,014 |
| Change in value of beneficial interest in trusts | <u>(76,199)</u> |
| Balance at June 30, 2019 | <u>\$ 4,562,815</u> |

Investments in Entities that Calculate Net Asset Value per Share

Michael Reese holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.

Note 3 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

| | Investments Held at June 30, 2020 | | | |
|--------------------------------|-----------------------------------|----------------------|-----------------------------------|--------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency, if Eligible | Redemption Notice Period |
| Multistrategy hedge (a) | \$ 768 | \$ - | Quarterly to annually | 45 to 120 days |
| Private equity (b) | 16,189,449 | 4,515,101 | N/A | N/A |
| Pooled endowment portfolio (c) | 116,429,695 | - | Monthly | 1 to 30 days |
| Total | \$ 132,619,912 | \$ 4,515,101 | | |

| | Investments Held at June 30, 2019 | | | |
|--------------------------------|-----------------------------------|----------------------|-----------------------------------|--------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency, if Eligible | Redemption Notice Period |
| Multistrategy hedge (a) | \$ 3,283,484 | \$ - | Quarterly to annually | 45 to 120 days |
| Private equity (b) | 16,095,928 | 5,435,136 | N/A | N/A |
| Pooled endowment portfolio (c) | 116,252,489 | - | Monthly | 1 to 30 days |
| Total | \$ 135,631,901 | \$ 5,435,136 | | |

(a) This category includes multistrategy absolute return investments focused on analyzing the probability-adjusted returns of individual securities and assets and capturing the alpha in mispriced assets/securities across conventional and alternative financial strategies. Management initiates long and short position targeting solid, absolute risk-adjusted returns. The fair values of the investments in this category have been estimated using net asset value per share of the investments. As of June 30, 2020 and 2019, both of the investments in this category have passed the initial lockup period.

(b) This category primarily includes private equity funds that focus on U.S. and international buyout and venture capital, real estate, and/or distressed debt. These investments are not redeemable. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the fund. The term for these investments ranges from 10 to 12 years. As of June 30, 2020 and 2019, the fair values of the investments in this category have been estimated using the practical expedient provided by the investment manager.

(c) The primary objectives of this category of funds are to invest prudently in order to preserve the inflation-adjusted value of the portfolio and guard against material reductions in its value and to maximize risk-adjusted returns over a long period of time. A suitable balance between these objectives requires the pooled endowment portfolio (PEP) to be highly diversified with respect to asset categories, geographical regions, strategies, and investment managers so as to achieve a reasonable balance between short-term risk and long-term return. PEP is structured to protect capital during sharp market downturns, to participate meaningfully during market rallies, and to outperform over typical market environments. The portfolio engages over 80 investment managers, each with expertise across a wide range of asset categories, including domestic and international equities; domestic and international bonds; and nontraditional assets, such as commodities, private equity, real estate, and natural resources.

June 30, 2020 and 2019

Note 4 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30 are available for the following purposes:

| | 2020 | 2019 |
|--|---------------|---------------|
| Subject to expenditures for a specific purpose | \$ 374,411 | \$ - |
| Subject to the appropriation and satisfaction of purpose restriction: | | |
| Endowment - Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor | 15,060,439 | 15,060,439 |
| Endowment - Accumulated investment gains | 8,575,407 | 7,869,558 |
| Total | 23,635,846 | 22,929,997 |
| Beneficial interest in trusts | 4,483,711 | 4,562,815 |
| Total net assets with donor restrictions | \$ 28,493,968 | \$ 27,492,812 |

Note 5 - Donor-restricted and Board-designated Endowments

Michael Reese's endowment consists of 28 individual funds established for a variety of purposes. The endowment includes both endowment funds with donor restrictions and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Michael Reese does not consider its beneficial interest in the perpetual trusts to be part of its endowment since it has no control over the assets included in the perpetual trusts.

Interpretation of Relevant Law

Michael Reese is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of Michael Reese had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, Michael Reese considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. Michael Reese has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, Michael Reese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Michael Reese and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Michael Reese
- The investment policies of Michael Reese

Notes to Financial Statements

June 30, 2020 and 2019

Note 5 - Donor-restricted and Board-designated Endowments (Continued)

| Endowment Net Asset Composition by Type of Fund as of June 30, 2020 | | | |
|--|-------------------------------|----------------------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Board-designated endowment funds | \$ 11,763,073 | \$ - | \$ 11,763,073 |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor | - | 15,060,439 | 15,060,439 |
| Accumulated investment gains | - | 8,575,407 | 8,575,407 |
| Total donor-restricted endowment funds | - | 23,635,846 | 23,635,846 |
| Total | \$ 11,763,073 | \$ 23,635,846 | \$ 35,398,919 |
| Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2020 | | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets - Beginning of year | \$ 11,358,155 | \$ 22,929,997 | \$ 34,288,152 |
| Interest and dividends | (3,535) | 15,920 | 12,385 |
| Realized and change in unrealized gain | 734,762 | 1,287,691 | 2,022,453 |
| Appropriation of endowment assets for expenditure | (326,309) | (597,762) | (924,071) |
| Endowment net assets - End of year | \$ 11,763,073 | \$ 23,635,846 | \$ 35,398,919 |
| Endowment Net Asset Composition by Type of Fund as of June 30, 2019 | | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Board-designated endowment funds | \$ 11,358,155 | \$ - | \$ 11,358,155 |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor | - | 15,060,439 | 15,060,439 |
| Accumulated investment gains | - | 7,869,558 | 7,869,558 |
| Total donor-restricted endowment funds | - | 22,929,997 | 22,929,997 |
| Total | \$ 11,358,155 | \$ 22,929,997 | \$ 34,288,152 |
| Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019 | | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets - Beginning of year | \$ 11,194,079 | \$ 22,852,916 | \$ 34,046,995 |
| Interest and dividends | (19,278) | (34,191) | (53,469) |
| Realized and change in unrealized gain | 509,663 | 903,932 | 1,413,595 |
| Appropriation of endowment assets for expenditure | (326,309) | (792,660) | (1,118,969) |
| Endowment net assets - End of year | \$ 11,358,155 | \$ 22,929,997 | \$ 34,288,152 |

Note 5 - Donor-restricted and Board-designated Endowments (Continued)

Return Objectives and Risk Parameters

The primary objective of Michael Reese is to increase the purchasing power of Michael Reese’s assets while reducing, to the greatest extent possible, the possibility of loss. Consistent with prudent standards for preservation of capital and maintenance of liquidity, the goal of Michael Reese is to earn the highest possible total rate of return consistent with Michael Reese’s tolerance for risk. A secondary objective is to have a sufficient degree of flexibility in order to meet unanticipated demands and changing environments. Endowment assets include those assets of funds with donor restrictions that Michael Reese must hold in perpetuity, as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are categorized by asset class. Each asset class has a target range to ensure diversification. Rebalancing will occur when any asset class is outside its range for two consecutive quarters. Total performance will be measured and compared against that of the S&P 500.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Michael Reese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Michael Reese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The controlled growth distribution policy, approved by the board of directors and adopted in March 2019, uses spending target ratios, scenario planning, and other controls to manage market volatility. The policy was designed to inform management of the annual budget; improve consistency of distributions; and, over time, increase the corpus and future distributions. Through the finance committee, the policy’s targets are tracked and reported against annual budgeted and actual spending.

Note 6 - Lease Commitments

Michael Reese leases its office space under a lease agreement that expires on November 30, 2020. The lease has not been renewed and is not expected to be renewed prior to the end of the lease term. The lease agreement requires monthly payments. Future minimum annual commitments under the operating lease are as follows:

| Fiscal Year Ending | Amount |
|-----------------------|-----------|
| 2021 | \$ 45,815 |

Rent expense for 2020 and 2019 was \$125,442 and \$119,349, respectively.

Note 7 - Public Foundation Status

Effective July 1, 2018, Michael Reese is operating as a public foundation under a five-year evaluation period. The evaluation period measures public support, with IRS Section 509(a)(1) requiring that the organization receive at least one-third of its support from contributions from the general public or meet the 10 percent facts and circumstances test.

Note 8 - Related Party Transactions

The Jewish Federation of Metropolitan Chicago (the "Jewish Federation") is the sole member of Michael Reese. The majority of the board of directors is appointed by the Jewish Federation. As of June 30, 2020 and 2019, grants payable to the Jewish Federation and its affiliates were \$444,558 and \$940,000, respectively. Grants awarded to the Jewish Federation and its affiliates were \$1,023,609 and \$245,799 for the years ended June 30, 2020 and 2019, respectively.

Michael Reese maintains an investment pool to the Jewish Federation of Metropolitan Chicago's Pooled Endowment Portfolio (PEP). The primary investor in PEP is the Jewish Federation. Certain Jewish Federation affiliate beneficiary agencies, such as Michael Reese, are also allowed to invest in PEP. As of June 30, 2020 and 2019, Michael Reese had investments of approximately \$116 million in PEP, making up approximately 88 and 86 percent, respectively, of Michael Reese's investments.

Note 9 - Liquidity

The following reflects Michael Reese's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30:

| | 2020 | 2019 |
|--|----------------|----------------|
| Cash and cash equivalents | \$ 7,512,316 | \$ 5,308,314 |
| Investments | 132,619,912 | 135,631,901 |
| Contributions receivable | 100,000 | - |
| | 140,232,228 | 140,940,215 |
| Financial assets - At year end | | |
| Less amounts not available for general expenditures within one year due to: | | |
| Contractual or donor-imposed restrictions: | | |
| Subject to satisfaction of donor restrictions | 374,411 | - |
| Subject to appropriation and satisfaction of donor restrictions | 8,575,407 | 7,869,558 |
| Perpetual restrictions | 15,060,439 | 15,060,439 |
| Board-designated endowment | 11,763,073 | 11,358,155 |
| | \$ 104,458,898 | \$ 106,652,063 |
| Financial assets available to meet cash needs for general expenditures within one year | | |

Michael Reese's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use, if applicable. As of June 30, 2020 and 2019, donor-restricted endowment funds are not available for general expenditure.

Michael Reese's board-designated endowment of \$11,763,073 and \$11,358,155 as of June 30, 2020 and 2019, respectively, is subject to annual approval by the board of directors of amounts to be appropriated, as described in Note 5. Although Michael Reese does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of Michael Reese's liquidity management plan, cash in excess of daily requirements is invested in multistrategy hedge funds, pooled endowment portfolios, and private equity funds.