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# Michael Reese Health Trust

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**Financial Report**  
**June 30, 2022**

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## Independent Auditor's Report

To the Board of Directors  
Michael Reese Health Trust

### **Opinion**

We have audited the financial statements of Michael Reese Health Trust (Michael Reese), which comprise the statement of financial position as of June 30, 2022 and 2021 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Michael Reese as of June 30, 2022 and 2021 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of Michael Reese and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matter**

As described in Note 3, the financial statements include investments valued at \$147,844,628 (95.7 percent of net assets) and \$173,416,501 (96.2 percent of net assets) at June 30, 2022 and 2021, 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.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Michael Reese's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### **Auditor's Responsibilities for the Audits of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors  
Michael Reese Health Trust

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Michael Reese's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Michael Reese's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

*Plante & Moran, PLLC*

November 2, 2022

## Michael Reese Health Trust

### Statement of Financial Position

June 30, 2022 and 2021

	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 6,208,069	\$ 4,599,349
Investments	147,844,628	173,416,501
Contribution receivable	200,000	50,000
Federal and state tax deposits	54,400	35,500
Prepaid expenses and other assets	34,705	51,827
Beneficial interest in trusts	4,622,401	5,630,982
Equipment - Net of accumulated depreciation of \$80,337 and \$77,669, respectively	2,214	4,882
Total assets	<b><u>\$ 158,966,417</u></b>	<b><u>\$ 183,789,041</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Grants payable	\$ 3,891,191	\$ 3,203,103
Deferred federal excise tax	402,067	126,039
Accrued expenses	214,470	233,654
Total liabilities	4,507,728	3,562,796
<b>Net Assets</b>		
Without donor restrictions	120,497,331	140,539,991
With donor restrictions	33,961,358	39,686,254
Total net assets	154,458,689	180,226,245
Total liabilities and net assets	<b><u>\$ 158,966,417</u></b>	<b><u>\$ 183,789,041</u></b>

## Michael Reese Health Trust

### Statement of Activities and Changes in Net Assets

Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue</b>						
Contributions	\$ 87,636	\$ 4,087,200	\$ 4,174,836	\$ 114,424	\$ 5,835,001	\$ 5,949,425
Contributions - Governmental agency	504,192	-	504,192	-	-	-
Contributions - Trusts and estates	463,768	-	463,768	357,090	-	357,090
Investment (loss) income - Net of expenses	(11,948,165)	(2,646,587)	(14,594,752)	35,352,407	7,635,977	42,988,384
Miscellaneous income	13,468	-	13,468	19,173	-	19,173
Net assets released from restrictions	6,156,928	(6,156,928)	-	3,425,963	(3,425,963)	-
Total (loss) revenue	(4,722,173)	(4,716,315)	(9,438,488)	39,269,057	10,045,015	49,314,072
<b>Expenses</b>						
Allocations of expenses:						
Programs	13,670,547	-	13,670,547	10,355,479	-	10,355,479
Management and general	1,319,294	-	1,319,294	1,044,685	-	1,044,685
Fundraising	330,646	-	330,646	194,349	-	194,349
Total expenses	15,320,487	-	15,320,487	11,594,513	-	11,594,513
<b>(Decrease) Increase in Net Assets - Before change in value of beneficial interests in trusts</b>	(20,042,660)	(4,716,315)	(24,758,975)	27,674,544	10,045,015	37,719,559
<b>Change in Value of Beneficial Interests in Trusts</b>	-	(1,008,581)	(1,008,581)	-	1,147,271	1,147,271
<b>(Decrease) Increase in Net Assets</b>	(20,042,660)	(5,724,896)	(25,767,556)	27,674,544	11,192,286	38,866,830
<b>Net Assets - Beginning of year</b>	140,539,991	39,686,254	180,226,245	112,865,447	28,493,968	141,359,415
<b>Net Assets - End of year</b>	<b>\$ 120,497,331</b>	<b>\$ 33,961,358</b>	<b>\$ 154,458,689</b>	<b>\$ 140,539,991</b>	<b>\$ 39,686,254</b>	<b>\$ 180,226,245</b>

**Statement of Functional Expenses**

**Year Ended June 30, 2022**

	Programs	Management and General	Fundraising	Total
Salaries	\$ 566,834	\$ 638,873	\$ 193,162	\$ 1,398,869
Taxes and benefits	250,350	207,141	74,059	531,550
Total salaries and related expenses	817,184	846,014	267,221	1,930,419
Grants and assistance	12,502,737	-	-	12,502,737
Special events	-	8,455	25,150	33,605
Professional fees	218,821	149,454	2,400	370,675
Public relations and marketing	2,214	335	23,430	25,979
Depreciation	2,668	-	-	2,668
Equipment rental and maintenance	21,311	6,865	6,335	34,511
Printing and publications	573	573	3,447	4,593
Conferences and meetings	10,152	712	-	10,864
Business insurance	16,741	14,762	-	31,503
Supplies	5,552	500	1,471	7,523
Telecommunications	11,413	3,576	-	14,989
Training	5,000	-	-	5,000
Transportation and travel	4,773	1,868	180	6,821
Dues and subscriptions	46,123	1,738	12	47,873
Unrelated business income taxes and excise taxes	-	276,032	-	276,032
Memorials	1,368	2,345	-	3,713
Other office expenses	3,917	-	1,000	4,917
Bank charges and fees	-	6,065	-	6,065
Total expenses	<b>\$ 13,670,547</b>	<b>\$ 1,319,294</b>	<b>\$ 330,646</b>	<b>\$ 15,320,487</b>

**Statement of Functional Expenses**

**Year Ended June 30, 2021**

	Programs	Management and General	Fundraising	Total
Salaries	\$ 450,167	\$ 547,494	\$ 127,715	\$ 1,125,376
Taxes and benefits	190,158	191,733	28,150	410,041
Total salaries and related expenses	640,325	739,227	155,865	1,535,417
Grants and assistance	9,442,946	-	-	9,442,946
Special events	1,584	20	-	1,604
Professional fees	102,345	223,153	4,306	329,804
Public relations and marketing	484	858	30,525	31,867
Depreciation	4,932	-	-	4,932
Equipment rental and maintenance	36,031	2,982	3,079	42,092
Occupancy	33,392	37,932	526	71,850
Printing and publications	5,006	86	48	5,140
Conferences and meetings	5,237	-	-	5,237
Business insurance	13,508	3,307	-	16,815
Supplies	2,958	7,238	-	10,196
Telecommunications	10,826	6,466	-	17,292
Memorials	11,348	250	-	11,598
Training	957	10,360	-	11,317
Transportation and travel	1,321	653	-	1,974
Dues and subscriptions	32,463	4,260	-	36,723
Other office expenses	9,720	1,235	-	10,955
Bank charges and fees	96	6,658	-	6,754
Total expenses	<b>\$ 10,355,479</b>	<b>\$ 1,044,685</b>	<b>\$ 194,349</b>	<b>\$ 11,594,513</b>



**Statement of Cash Flows**

**Years Ended June 30, 2022 and 2021**

	2022	2021
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (25,767,556)	\$ 38,866,830
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	2,668	4,932
Realized and unrealized losses (gains) on investments	14,594,752	(42,988,384)
Change in value of beneficial interests in trusts	1,008,581	(1,147,271)
Changes in operating assets and liabilities that (used) provided cash:		
Contribution receivable	(150,000)	50,000
Federal excise tax deposits	(18,900)	163,311
Prepaid expenses and other assets	17,122	(8,328)
Grants payable	688,088	(65,970)
Deferred federal excise tax	276,028	(14,145)
Accrued expenses	(19,184)	34,263
Net cash used in operating activities	(9,368,401)	(5,104,762)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	14,048,278	7,246,872
Purchase of investments	(3,071,157)	(5,055,077)
Issuance of loan	-	(1,000,000)
Collection of loans receivable	-	1,000,000
Net cash provided by investing activities	10,977,121	2,191,795
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,608,720	(2,912,967)
<b>Cash and Cash Equivalents - Beginning of year</b>	4,599,349	7,512,316
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 6,208,069</b>	<b>\$ 4,599,349</b>

**June 30, 2022 and 2021**

**Note 1 - Nature of Business**

Michael Reese Health Trust (Michael Reese) incubates, strengthens, and advocates for health solutions to ensure all Chicagoans can live healthy lives. Michael Reese partners with organizations across Chicago by providing grant funding and advisory support to advance their work through our incubation, grantmaking, and advocacy programs. Michael Reese carries on the values of Michael Reese Hospital to provide quality, compassionate, and accessible health solutions to Chicago.

Michael Reese's mission is to advance equitable access to health solutions for all Chicagoans. Michael Reese carries forward the vision of Michael Reese Hospital's Jewish founders and the generations of philanthropic leadership they inspired.

Michael Reese strives to create a more equitable city through three programs:

***Incubation***

Michael Reese takes risks on new and experimental ideas to improve the health of all Chicagoans. Michael Reese partners with Chicago's visionary leaders in the startup phase of launching their innovative solutions. As their partner, Michael Reese shares in the risk of launching a new initiative so they can focus on the work they do best.

***Grantmaking***

Michael Reese accelerates and strengthens proven solutions to improve the health of all Chicagoans. Michael Reese partners with nonprofits across Chicago addressing health challenges. Whether scaling up a promising new model or sustaining a long-term, proven program, Michael Reese is committed to its partners' success.

***Advocacy***

Michael Reese pushes for lasting change by influencing policymakers to improve the health of all Chicagoans. Michael Reese partners with grassroots organizations and coalitions to protect and expand health care access and to address the underlying causes of health inequality. Michael Reese knows systems change is the only way to fully address Chicago's health challenges.

**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.

***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, where 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.

**June 30, 2022 and 2021**

**Note 2 - Significant Accounting Policies (Continued)**

***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 that 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.

***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 6.60 and 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 \$463,768 and \$357,090 was received from these entities during the years ended June 30, 2022 and 2021, respectively.

***Grants Payable***

Grants payable consist of unconditional and conditional grants payable within one year. Unconditional grants are recognized as expense at the time of approval by the grant committee. Conditional grants (those with a measurable performance or other barrier and a right of return) are expensed when such conditions are substantially met. During the years ended June 30, 2022 and 2021, Michael Reese approved conditional grants of \$161,776 and \$0, respectively, that are excluded from expense.

**June 30, 2022 and 2021**

**Note 2 - Significant Accounting Policies (Continued)**

***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. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend have been met. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

A portion of Michael Reese's revenue is derived from a cost-reimbursable federal grant. This government grant is conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Michael Reese has incurred expenditures in compliance with the grant provisions.

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 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).

The deferred federal excise tax on the statement of financial position represents the tax on realized gains on investment in securities. Excise tax is recorded on the statement of activities and changes in net assets in the net realized gains on investments.

***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.

***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.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including November 2, 2022, which is the date the financial statements were available to be issued. Subsequent to year end, Michael Reese's investment portfolio has continued to fluctuate, consistent with the financial markets. However, due to the uncertainty of market conditions, the amount of gains or losses that will be recognized in subsequent periods cannot be determined.

June 30, 2022 and 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.

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 tables present information about Michael Reese’s assets measured at fair value on a recurring basis at June 30, 2022 and 2021 and the valuation techniques used by Michael Reese to determine those fair values:

<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2022</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, 2022</u>
Beneficial interest in trusts	\$ -	\$ -	\$ 4,622,401	\$ 4,622,401
Investments measured at NAV:				
Pooled endowment portfolio				130,169,090
Private equity funds				<u>17,675,538</u>
Total investments measured at NAV				<u>147,844,628</u>
Total assets				<u>\$ 152,467,029</u>

June 30, 2022 and 2021

**Note 3 - Fair Value Measurements (Continued)**

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2021			
	Quoted Prices in			Balance at June 30, 2021
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Beneficial interest in trusts	\$ -	\$ -	\$ 5,630,982	\$ 5,630,982
Investments measured at NAV:				
Pooled endowment portfolio				147,501,683
Private equity funds				25,914,818
Total investments measured at NAV				<u>173,416,501</u>
Total assets				<u>\$ 179,047,483</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.

**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.

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

	Investments Held at June 30, 2022			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity (a)	\$ 17,675,538	\$ 3,335,157	N/A	N/A
Pooled endowment portfolio (b)	130,169,090	-	Monthly	1 to 30 days
Total	<u>\$ 147,844,628</u>	<u>\$ 3,335,157</u>		
	Investments Held at June 30, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity (a)	\$ 25,914,818	\$ 3,481,498	N/A	N/A
Pooled endowment portfolio (b)	147,501,683	-	Monthly	1 to 30 days
Total	<u>\$ 173,416,501</u>	<u>\$ 3,481,498</u>		

June 30, 2022 and 2021

**Note 3 - Fair Value Measurements (Continued)**

(a) 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 remaining term for these investments ranges from six to eight years. The fair values of the investments in this category have been estimated using the practical expedient provided by the investment manager.

(b) 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.

**Note 4 - Net Assets with Donor Restrictions**

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

	2022	2021
Subject to expenditures for a specific purpose	\$ 2,723,370	\$ 3,498,290
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	11,555,148	15,496,543
Total	26,615,587	30,556,982
Beneficial interest in trusts	4,622,401	5,630,982
Total net assets with donor restrictions	\$ 33,961,358	\$ 39,686,254

**Note 5 - Donor-restricted and Board-designated Endowments**

Michael Reese's endowment consists of 26 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.

June 30, 2022 and 2021

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

*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

	Endowment Net Asset Composition by Type of Fund as of June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 13,614,707	\$ -	\$ 13,614,707
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	-	11,555,148	11,555,148
Total donor-restricted endowment funds	-	26,615,587	26,615,587
Total	\$ 13,614,707	\$ 26,615,587	\$ 40,230,294

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 15,247,521	\$ 30,556,982	\$ 45,804,503
Interest and dividends	45,705	71,045	116,750
Realized and change in unrealized gain	(1,333,739)	(2,717,632)	(4,051,371)
Appropriation of endowment assets for expenditure	(344,780)	(1,294,808)	(1,639,588)
Endowment net assets - End of year	\$ 13,614,707	\$ 26,615,587	\$ 40,230,294



June 30, 2022 and 2021

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

	Endowment Net Asset Composition by Type of Fund as of June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 15,247,521	\$ -	\$ 15,247,521
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	-	15,496,543	15,496,543
Total donor-restricted endowment funds	-	30,556,982	30,556,982
Total	\$ 15,247,521	\$ 30,556,982	\$ 45,804,503
	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 11,763,073	\$ 23,635,846	\$ 35,398,919
Interest and dividends	(37,552)	(80,757)	(118,309)
Realized and change in unrealized gain	3,866,780	7,716,734	11,583,514
Appropriation of endowment assets for expenditure	(344,780)	(714,841)	(1,059,621)
Endowment net assets - End of year	\$ 15,247,521	\$ 30,556,982	\$ 45,804,503

**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 and adopted by the board of directors 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.

June 30, 2022 and 2021

**Note 6 - 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 7 - Loan Agreement**

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 accrued no interest, and the principal balance was fully paid off prior to June 30, 2021.

**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, 2022 and 2021, grants payable to the Jewish Federation and its affiliates were \$1,125,000 and \$355,000, respectively. Grants awarded to the Jewish Federation and its affiliates were \$2,243,669 and \$1,229,543 for the years ended June 30, 2022 and 2021, respectively.

Michael Reese maintains an investment pool to the Jewish Federation of Metropolitan Chicago's Pooled Endowment Portfolio. 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, 2022 and 2021, Michael Reese had investments of approximately \$130 million and \$148 million in PEP, making up approximately 88 and 85 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:

	2022	2021
Cash and cash equivalents	\$ 6,208,069	\$ 4,599,349
Investments	147,844,628	173,416,501
Beneficial interests in trusts	4,622,401	5,630,982
Contributions receivable	200,000	50,000
Financial assets - At year end	158,875,098	183,696,832
Less amounts not available for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Subject to satisfaction of donor restrictions	2,723,370	3,498,290
Subject to appropriation and satisfaction of donor restrictions	11,555,148	15,496,543
Perpetual restrictions	15,060,439	15,060,439
Beneficial interests in trusts	4,622,401	5,630,982
Investments held in private equity funds	17,675,538	25,914,818
Board-designated endowment	13,269,927	14,902,741
Financial assets available to meet cash needs for general expenditures within one year	\$ 93,968,275	\$ 103,193,019

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, 2022 and 2021, donor-restricted endowment funds are not available for general expenditure.

**June 30, 2022 and 2021**

**Note 9 - Liquidity (Continued)**

Michael Reese's board-designated endowment of \$13,614,707 and \$15,247,521 as of June 30, 2022 and 2021, 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 pooled endowment portfolios and private equity funds.