



**MUELLER & CO., LLP**

*Certified Public Accountants – Business & Financial Advisors*

**ASSURANCE**

**HEALTHY COMMUNITIES FOUNDATION  
AUDITED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

**MUELLER**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Healthy Communities Foundation  
Riverside, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Healthy Communities Foundation, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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 Healthy Communities Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 of the financial statements, for the year ended December 31, 2019, Healthy Communities Foundation adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to this matter.

Muller & Co., LLP

HEALTHY COMMUNITIES FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

**ASSETS**

	<u>2019</u>	<u>2018</u>
Cash	\$ 232,446	2,206,204
Accounts receivable	20,000	80,000
Due from U.S. Treasury	671,174	-
Due from redemption of securities	-	2,266,746
Prepaid expenses and deposits	15,408	1,301,919
Investments	128,236,451	115,408,515
Property and equipment, net	<u>5,954</u>	<u>9,036</u>
	<u>\$ 129,181,433</u>	<u>121,272,420</u>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable	\$ 69,588	123,346
Grants payable	376,658	337,500
Excise and unrelated business income taxes payable	<u>67,105</u>	<u>569,639</u>
	<u>513,351</u>	<u>1,030,485</u>

**Net assets -**

Without donor restrictions	<u>128,668,082</u>	<u>120,241,935</u>
	<u>\$ 129,181,433</u>	<u>121,272,420</u>

The accompanying notes are an integral part of the financial statements.

**HEALTHY COMMUNITIES FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>Investment income (loss):</b>		
Investment income (loss), net	\$ 14,786,940	(6,937,866)
Miscellaneous income	163,662	16,354
Total investment income (loss)	14,950,602	(6,921,512)
<b>Expenses:</b>		
Program services	5,757,343	5,347,913
Management and general	767,112	1,193,359
Total expenses	6,524,455	6,541,272
Change in net assets	8,426,147	(13,462,784)
Net assets without donor restrictions, beginning of year	120,241,935	133,704,719
Net assets without donor restrictions, end of year	\$ 128,668,082	120,241,935

The accompanying notes are an integral part of the financial statements.

**HEALTHY COMMUNITIES FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019			2018		
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	TOTAL EXPENSES	PROGRAM SERVICES	MANAGEMENT AND GENERAL	TOTAL EXPENSES
Grants	\$ 5,086,142	-	5,086,142	4,784,422	-	4,784,422
Salaries and employee benefits	428,131	460,666	888,797	299,537	341,316	640,853
Professional fees	114,901	57,763	172,664	159,562	170,355	329,917
Excise and unrelated business income taxes	-	68,605	68,605	-	573,036	573,036
Other expenses	128,169	180,078	308,247	104,392	108,652	213,044
	<u>\$ 5,757,343</u>	<u>767,112</u>	<u>6,524,455</u>	<u>5,347,913</u>	<u>1,193,359</u>	<u>6,541,272</u>

The accompanying notes are an integral part of the financial statements.

**HEALTHY COMMUNITIES FOUNDATION**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>Cash provided by (applied to) operating activities:</b>		
Change in net assets	\$ 8,426,147	(13,462,784)
Adjustments to reconcile change in net assets to net cash applied to operating activities:		
Depreciation expense	3,082	3,898
Realized gain on sales of investments	(1,633,064)	(26,006,134)
Unrealized (gain) loss on investments	(11,347,339)	35,118,140
Changes in:		
Accounts receivable	60,000	(80,000)
Due from U.S. Treasury	(671,174)	-
Prepaid expenses and deposits	1,286,511	184,605
Accounts payable	(53,758)	35,685
Grants payable	39,158	(22,500)
Excise and unrelated business income taxes payable	(502,534)	569,639
	(4,392,971)	(3,659,451)
 <b>Cash provided by (applied to) investing activities:</b>		
Purchases of property and equipment	-	(2,795)
Purchases of investments	(58,189,843)	(127,500,575)
Proceeds from sales of investments	58,342,310	131,652,315
Proceeds from redemptions of securities	2,266,746	1,596,797
	2,419,213	5,745,742
 Net increase (decrease) in cash	(1,973,758)	2,086,291
 Cash, beginning of year	2,206,204	119,913
 Cash, end of year	\$ 232,446	2,206,204
 <b>Other cash flow information -</b>		
Income taxes paid	\$ 390,000	1,242,500

The accompanying notes are an integral part of the financial statements.



# HEALTHY COMMUNITIES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 1 - NATURE OF OPERATIONS**

Healthy Communities Foundation (Foundation), formerly The Arthur Foundation and preceding that, the MacNeal Health Foundation, is a corporation organized under the Illinois General Not for Profit Corporation Act of 1986. The Foundation was originally funded by a \$100,000,000 contribution from the MacNeal Memorial Hospital Association as a result of the sale of the hospital it owned.

The Foundation is a not-for-profit organization that makes grants to other not-for-profit organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC) of 1986 to promote health equity, quality and access for all. Grants are given to organizations located within the Foundation's geographic target area or serving a significant percentage of the local population in these communities.

### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles applicable to not-for-profit organizations and in accordance with accounting principles generally accepted in the United States of America.

#### **Investments**

The Foundation invests in cash reserves, mutual funds and other investments such as real estate, commodities, hedge funds and private equity funds with a primary goal of preserving and increasing principal through diversification.

The Foundation's investments are reported at fair value. Investment gains and losses, including net realized and unrealized gains and losses, are reflected in the statements of activities as increases or decreases in net assets. Interest and dividend income is recorded on the accrual basis.

In addition, there are various investments with future lock-up periods and redemption notice periods, as well as unfunded commitments that are stated in Note 4.

The Foundation's investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term that will materially affect the amounts reported in the financial statements.

At December 31, 2018 the Foundation had amounts due from the redemption of securities of \$2,266,746. These redemptions were executed prior to year-end and represent the return of investor principal to the Foundation. At December 31, 2019, there were no outstanding redemptions.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

##### Property and Equipment

Property and equipment have been recorded at cost if purchased or at fair value at the time of donation if received as a gift. The Foundation's policy is to capitalize items with useful lives of one year or more and values of \$2,500 or more. These assets are depreciated over their estimated useful lives using the straight-line method. Furniture and fixtures and computer equipment and software are all estimated to have five-year useful lives.

##### Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets when received. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor. The Foundation did not receive any contributions during the years ended December 31, 2019 and 2018.

The Foundation reports gifts of goods and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

##### Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor-imposed restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

##### Functional Expenses

The costs of program and management and general activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and management and general activities.

The financial statements report certain categories of expenses that are attributable to more than one program or management and general function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and employee benefits and professional fees, which are allocated on the basis of estimates of time and effort. Other expenses are allocated in proportion to the full-time equivalent personnel benefitted by those expenses.

##### Federal Income Taxes

The Foundation is exempt from income tax under provisions of IRC Sections 501(a) and 501(c)(3).

##### Accounting Estimates

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

##### Concentration of Credit Risk

The Foundation maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Foundation believes it is not exposed to significant credit risk on these accounts.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

##### Change in Accounting Principle – Contributions Received and Contributions Made

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU No. 2018-08 improves the current guidance on determining whether transactions are contributions or exchange transactions. ASU No. 2018-08 also requires determining if a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. In 2019, the Foundation adopted ASU No. 2018-08 and has adjusted the presentation in these financial statements accordingly. ASU No. 2018-08 has been applied using the modified prospective method.

##### New Accounting Standard – Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to improve financial reporting about leasing transactions. ASU No. 2016-02 requires that leased assets be recognized as assets on the statements of financial position and the liabilities for the obligations under the lease also be recognized on the statements of financial position. ASU No. 2016-02 requires disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The required disclosures include qualitative and quantitative requirements. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the methods of adoption allowed by ASU No. 2016-02 and related updates and the effect they are expected to have on its financial position, changes in net assets, cash flows and related disclosures.

##### Going Concern Evaluation

In accordance with accounting principles generally accepted in the United States of America, management performed an evaluation to determine if adverse conditions or events, considered in the aggregate, raise substantial doubt about the Foundation's ability to continue as a going concern for the one-year period from the date the financial statements are available to be issued. Management's assessment did not identify any conditions or events raising substantial doubt about the Foundation's ability to continue as a going concern for the period from December 18, 2020 to December 18, 2021.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash	\$ 232,446	2,206,204
Accounts receivable	20,000	80,000
Due from U.S. Treasury	671,174	-
Due from redemption of securities	-	2,266,746
Investments	<u>128,236,451</u>	<u>115,408,515</u>
	<u>129,160,071</u>	<u>119,961,465</u>
Less: amounts not available for general expenditures within one year, due to:		
Contractual restrictions	<u>-</u>	<u>4,012,201</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>129,160,071</u>	<u>115,949,264</u>

As part of the Foundation's liquidity management plan, cash in excess of daily requirements is invested in the Foundation's investment portfolio. The Foundation keeps approximately 70% of its total investments in funds with daily liquidity. The Foundation's goal is to maintain approximately 60 days of general operating funds in cash and will make withdrawals from the investment portfolio as needed or in order to meet the obligations of its annual grant portfolio in accordance with minimum distribution requirements.

#### NOTE 4 - 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.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### **NOTE 4 - 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.

In instances whereby 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. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

**Investment Level 1 Inputs** – Fair values were determined using quoted prices in active markets for identical assets that the Foundation has the ability to access.

**Investments in Entities that Calculate Net Asset Value per Share** – The Foundation holds shares or interests in investment companies at year end whereby the fair value of investment held is estimated based on the net asset value (NAV) per share (or its equivalent) of the investment company.

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

HEALTHY COMMUNITIES FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED

Assets at Fair Value as of December 31, 2019

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2019
Investments:				
Money market funds	\$ 1,282,391	-	-	1,282,391
Mutual funds –				
Equity focused	46,740,036	-	-	46,740,036
Mutual funds –				
Fixed income focused	40,003,783	-	-	40,003,783
Investments at NAV <sup>(a)</sup> :				
Hedge funds –				
Equity focused	-	-	-	18,155,495
Hedge funds –				
Fixed-income focused	-	-	-	16,677,660
Hedge funds –				
Multi-strategy	-	-	-	5,114
Commodity funds	-	-	-	614,716
Real estate partnerships	-	-	-	2,076,456
Private equity funds	-	-	-	2,680,800
	<u>88,026,210</u>	<u>-</u>	<u>-</u>	<u>128,236,451</u>
Total investments	\$ <u>88,026,210</u>	<u>-</u>	<u>-</u>	<u>128,236,451</u>

HEALTHY COMMUNITIES FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED

Assets at Fair Value as of December 31, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2018
Investments:				
Money market funds	\$ 436,532	-	-	436,532
Mutual funds –				
Equity focused	38,540,438	-	-	38,540,438
Mutual funds –				
Fixed income focused	37,852,671	-	-	37,852,671
Investments at NAV <sup>(a)</sup> :				
Hedge funds –				
Equity focused	-	-	-	17,516,065
Hedge funds –				
Fixed-income focused	-	-	-	13,993,560
Hedge funds –				
Multi-strategy	-	-	-	24,570
Commodity funds	-	-	-	2,287,843
Real estate partnerships	-	-	-	2,428,497
Private equity funds	-	-	-	2,328,339
Total investments	\$ <u>76,829,641</u>	<u>-</u>	<u>-</u>	<u>115,408,515</u>

- (a) In accordance with subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

For the years ended December 31, 2019 and 2018, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.



**HEALTHY COMMUNITIES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)**

**NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED**

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

**Investments Held at December 31, 2019**

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if eligible</u>	<u>Redemption Notice Period</u>
Equity focused (a)	\$ 18,155,495	1,352,492	Monthly, quarterly, Annually, triannually, or at general partner's discretion	5-90 days; n/a
Fixed-income focused (b)	16,677,660	770,946	Monthly, quarterly, At general partner's discretion or upon dissolution of fund	30-90 days; n/a
Multi-strategy (c)	5,114	-	As deals realize	60 days
Commodity funds (d)	614,716	3,085,683	At general partner's discretion	n/a
Real estate partnerships (e)	2,076,456	270,677	At general partner's discretion, upon dissolution of fund	n/a
Private equity funds (f)	<u>2,680,800</u>	<u>8,122,716</u>	At general partner's discretion	n/a
Total	\$ <u>40,210,241</u>	<u>13,602,514</u>		

**HEALTHY COMMUNITIES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)**

**NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED**

**Investments Held at December 31, 2018**

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if eligible</u>	<u>Redemption Notice Period</u>
Equity focused (a)	\$ 17,516,065	1,734,711	Monthly, quarterly, Annually, triannually, or at general partner's discretion	5-90 days; n/a
Fixed-income focused (b)	13,993,560	4,412,683	Monthly, quarterly, At general partner's discretion or upon dissolution of fund	30-90 days; n/a
Multi-strategy (c)	24,570	-	As deals realize	60 days
Commodity funds (d)	2,287,843	3,085,683	At general partner's discretion	n/a
Real estate partnerships (e)	2,428,497	222,064	At general partner's discretion, upon dissolution of fund	n/a
Private equity funds (f)	<u>2,328,339</u>	<u>285,938</u>	At general partner's discretion	n/a
<b>Total</b>	\$ <u><u>38,578,874</u></u>	<u><u>9,741,079</u></u>		

(a) This category includes hedge funds that invest in a variety of equity-focused strategies, including securities of domestic and foreign publicly traded companies. The fair values of the underlying investments in this category have been estimated using their respective net asset values. Investments totaling \$4,012,201 were subject to a three-year rolling lockup expiring June 30, 2020 for the years ended 2019 and 2018.

(b) This category includes hedge funds that invest in a variety of fixed-income focused strategies, including distressed and below-investment-grade debt securities, mortgage-backed securities, asset-backed securities, corporate bonds, unconstrained or opportunistic bonds, collateralized debt obligations and commodities. The fair values of the investments in this category have been estimated using their respective net asset values. For 2018 investments totaling \$1,990,072 are subject to a one-year soft lock on these investments and another \$1,049,593 is subject to a 25% investor level gate. For 2019 no investments are subject to a one-year soft lock and investments in the amount of \$1,091,120 and \$975,949 are subject to a 25% investor level and fund level gate, respectively.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED

- (c) This category includes hedge funds that invest using a multiple-strategy approach, including short-term deposits, publicly traded equity and debt securities, asset-backed and mortgage-backed securities, derivative instruments, convertible bonds and options, emerging markets, arbitrage securities, equity restructurings, and residential and commercial real estate assets. The fair values of the investments in this category have been estimated using their respective net asset values. For 2019 and 2018, investments totaling \$5,114 and \$28,026, respectively, are subject to a 10% holdback upon redemption, which is paid after the completion of the audited financial statements for the year in which the redemption was made.
- (d) This category includes funds that are invested in natural commodities, including coal mines and methane. The fair values of the investments in this category have been estimated using their respective net asset values. These funds are expected to terminate within two to seven years.
- (e) This category includes funds that invest in a variety of real estate ventures, including limited partnerships, LLCs and private real estate investment trusts. The types of real estate include offices, apartments, industrial buildings and other commercial real estate properties primarily located in the United States of America. The fair values of the investments in this category have been estimated using their respective net asset values. One investment with a value of \$780,339 and \$1,061,772 for 2019 and 2018, respectively, will terminate upon such time as reasonably necessary to wind down the affairs of the partnership after the date of which all of the partnership's investments in the underlying funds have been liquidated.
- (f) This category includes funds that invest in a variety of private equity strategies, including health care, media, technology and venture capital. The fair values of the investments in this category have been estimated using their respective net asset values. These funds have lock-up periods ranging from five to seven years or one year after all of the investments have been disposed.

For investments whose fair values are estimated based on NAV per share (or its equivalent) above there were investment restrictions of greater than one year for assets totaling \$4,012,201 for the year ended December 31, 2018. There were none for the year ended December 31, 2019.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### **NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Computer equipment and software	\$ 32,462	32,462
Furniture and fixtures	<u>45,186</u>	<u>45,186</u>
	77,648	77,648
Less accumulated depreciation	( <u>71,694</u> )	( <u>68,612</u> )
	\$ <u><u>5,954</u></u>	<u><u>9,036</u></u>

Depreciation expense included in program and management and general services was \$3,082 and \$3,898 for the years ended December 31, 2019 and 2018, respectively.

#### **NOTE 6 - FEDERAL TAXES AND MINIMUM REQUIRED DISTRIBUTIONS**

In accordance with the applicable provisions of the IRC of 1986, as amended (the "Code"), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined in the Code. Federal excise tax expense for the years ended December 31, 2019 and 2018 was estimated to be \$68,605 and \$562,014, respectively. In addition, the Foundation is subject to unrelated business income tax on a portion of the income provided by certain investment partnerships. Federal unrelated business income tax expense for the years ended December 31, 2019 and 2018 was estimated to be \$0 and \$7,625, respectively.

For the year ended December 31, 2019 the Foundation had a \$671,174 receivable related to the overpayment of taxes in the prior year. For the years ended December 31, 2019 and 2018 the Foundation had excise and unrelated business income taxes payable of \$67,105 and \$569,639, respectively.

The Code requires that certain minimum distributions be made in accordance with a specific formula. The Foundation has met the minimum distribution requirements for the years ended December 31, 2019 and 2018.

#### **NOTE 7 - GRANTS**

The Foundation had no conditionally approved future commitments for the years ended December 31, 2019 and 2018. In addition, the Foundation reserves the right to cancel a grant at any time if it determines that the organization receiving the grant is not administering the project and grant funds in accordance with the proposal approved by the Foundation's board.

# HEALTHY COMMUNITIES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LEASE COMMITMENTS

The Foundation has entered into a lease for its facilities. The amount of rent expense for the years ended December 31, 2019 and 2018 was \$42,120 and \$28,645, respectively. The Foundation's lease expires on June 30, 2026 and has monthly payments between \$4,000 and \$4,244. Future minimum lease payments for the years ending December 31 are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 50,272
2021	49,325
2022	48,000
2023	48,000
2024	48,702
Thereafter	<u>75,630</u>
	<u>\$ 319,929</u>

### NOTE 9 - DEFINED CONTRIBUTION PLANS

The Foundation sponsored a defined contribution retirement (DCR) plan, established on January 1, 2000; a tax-deferred annuity (TDA) plan, established on January 1, 2001; and a tax-deferred annuity (TDA) matching plan, established on January 1, 2006, for certain key employees who were eligible based on age and length of service. All three plans complied with the requirements of IRC 403(b). The DCR plan provided for contributions in the amount of 9% of compensation. The TDA plan provided for pretax employee contributions up to the annual legal limit, with the TDA matching plan providing a 50% match by the Foundation on those employees' contributions. These plans were terminated in May of 2018 and there were no contributions under these plans for the year ended December 31, 2018. During 2019 and 2018 the Foundation utilized simplified employee pension individual retirement accounts (SEP IRAs) for all employees. There were \$94,721 and \$51,692 in contributions to the SEP IRAs for the years ended December 31, 2019 and 2018, respectively.

### NOTE 10 - SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through December 18, 2020, the date that the financial statements were available for issue.

## HEALTHY COMMUNITIES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### **NOTE 10 - SUBSEQUENT EVENTS, CONTINUED**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States of America. The extent of the impact of COVID-19 on the Foundation's financial condition will depend on certain developments, including the duration and spread of the outbreak and impact of the pandemic on the Foundation's investments all of which are uncertain and cannot be predicted. At this time, the Foundation's investment portfolio has experienced limited volatility and the Foundation has increased its annual giving in order to provide financial support to those most in need in the Foundation's service area. The future extent to which COVID-19 may impact the Foundation's financial condition or changes in net assets is uncertain.