

# **Michael Reese Health Trust**

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**Financial Report**  
**June 30, 2014**

# Michael Reese Health Trust

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## Independent Auditor's Report

To the Board of Trustees  
Michael Reese Health Trust

We have audited the accompanying financial statements of Michael Reese Health Trust (the "Trust"), which comprise the statement of financial position as of June 30, 2014 and 2013 and the related statements of activities and changes in net assets 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.

To the Board of Trustees  
Michael Reese Health Trust

***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, 2014 and 2013 and 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 described in Note 3, the financial statements include investments valued at \$48,943,929 (34 percent of net assets) and \$48,393,361 (37 percent of net assets) at June 30, 2014 and 2013, respectively, whose fair value has been estimated in the absence of observable inputs used to determine the 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.

*Plante & Moran, PLLC*

November 5, 2014

# Michael Reese Health Trust

## Statement of Financial Position June 30, 2014

|  | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|--|-----------------------|---------------------------|---------------------------|-----------------------|
| <b>Assets</b>  |                       |                           |                           |                       |
| Cash and cash equivalents                                | \$ 1,474,540          | \$ -                      | \$ -                      | \$ 1,474,540          |
| Investments  | 120,358,614           | 6,392,398                 | 15,060,439                | 141,811,451           |
| Prepaid expenses   | 13,889                | -                         | -                         | 13,889                |
| Federal excise tax deposits                              | 18,397                | -                         | -                         | 18,397                |
| Beneficial interest in trusts                            | -                     | -                         | 4,874,161                 | 4,874,161             |
| Equipment (net of accumulated depreciation of \$159,352) | 12,891                | -                         | -                         | 12,891                |
| Total assets   | <b>\$ 121,878,331</b> | <b>\$ 6,392,398</b>       | <b>\$ 19,934,600</b>      | <b>\$ 148,205,329</b> |
| <b>Liabilities and Net Assets</b>                        |                       |                           |                           |                       |
| <b>Liabilities</b>                                       |                       |                           |                           |                       |
| Grants payable   | \$ 4,194,400          | \$ -                      | \$ -                      | \$ 4,194,400          |
| Deferred federal excise tax                              | 770,125               | -                         | -                         | 770,125               |
| Accrued expenses   | 231,000               | -                         | -                         | 231,000               |
| Total liabilities  | 5,195,525             | -                         | -                         | 5,195,525             |
| <b>Net Assets</b>  |                       |                           |                           |                       |
| Unrestricted:  |                       |                           |                           |                       |
| Undesignated   | 107,922,167           | -                         | -                         | 107,922,167           |
| Board designated   | 8,760,639             | -                         | -                         | 8,760,639             |
| Temporarily restricted                                   | -                     | 6,392,398                 | -                         | 6,392,398             |
| Permanently restricted                                   | -                     | -                         | 19,934,600                | 19,934,600            |
| Total net assets   | 116,682,806           | 6,392,398                 | 19,934,600                | 143,009,804           |
| Total liabilities and net assets                         | <b>\$ 121,878,331</b> | <b>\$ 6,392,398</b>       | <b>\$ 19,934,600</b>      | <b>\$ 148,205,329</b> |

# Michael Reese Health Trust

## Statement of Financial Position June 30, 2013

|  | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|--|-----------------------|---------------------------|---------------------------|-----------------------|
| <b>Assets</b>  |                       |                           |                           |                       |
| Cash and cash equivalents                                | \$ 796,865            | \$ -                      | \$ -                      | \$ 796,865            |
| Investments  | 110,018,727           | 4,522,232                 | 15,060,439                | 129,601,398           |
| Prepaid expenses   | 31,543                | -                         | -                         | 31,543                |
| Federal excise tax deposits                              | 71,090                | -                         | -                         | 71,090                |
| Beneficial interest in trusts                            | -                     | -                         | 4,514,052                 | 4,514,052             |
| Equipment (net of accumulated depreciation of \$154,273) | 15,762                | -                         | -                         | 15,762                |
| <b>Total assets</b>                                      | <b>\$ 110,933,987</b> | <b>\$ 4,522,232</b>       | <b>\$ 19,574,491</b>      | <b>\$ 135,030,710</b> |
| <b>Liabilities and Net Assets</b>                        |                       |                           |                           |                       |
| <b>Liabilities</b>                                       |                       |                           |                           |                       |
| Grants payable   | \$ 3,434,100          | \$ -                      | \$ -                      | \$ 3,434,100          |
| Deferred federal excise tax                              | 517,055               | -                         | -                         | 517,055               |
| Accrued expenses   | 237,597               | -                         | -                         | 237,597               |
| <b>Total liabilities</b>                                 | <b>4,188,752</b>      | <b>-</b>                  | <b>-</b>                  | <b>4,188,752</b>      |
| <b>Net Assets</b>  |                       |                           |                           |                       |
| Unrestricted:  |                       |                           |                           |                       |
| Undesignated   | 98,223,158            | -                         | -                         | 98,223,158            |
| Board designated   | 8,522,077             | -                         | -                         | 8,522,077             |
| Temporarily restricted                                   | -                     | 4,522,232                 | -                         | 4,522,232             |
| Permanently restricted                                   | -                     | -                         | 19,574,491                | 19,574,491            |
| <b>Total net assets</b>                                  | <b>106,745,235</b>    | <b>4,522,232</b>          | <b>19,574,491</b>         | <b>130,841,958</b>    |
| <b>Total liabilities and net assets</b>                  | <b>\$ 110,933,987</b> | <b>\$ 4,522,232</b>       | <b>\$ 19,574,491</b>      | <b>\$ 135,030,710</b> |

# Michael Reese Health Trust

## Statement of Activities and Changes in Net Assets

|  | Year Ended            |                        |                        |                       |                       |                        |                        |                       |
|--|-----------------------|------------------------|------------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|
|  | June 30, 2014         |                        |                        |                       | June 30, 2013         |                        |                        |                       |
|  | Unrestricted          | Temporarily Restricted | Permanently Restricted | Total                 | Unrestricted          | Temporarily Restricted | Permanently Restricted | Total                 |
| <b>Revenue</b>   |                       |                        |                        |                       |                       |                        |                        |                       |
| Trust fund and other income  | \$ 371,404            | \$ -                   | \$ -                   | \$ 371,404            | \$ 443,143            | \$ -                   | \$ -                   | \$ 443,143            |
| Contributions  | 700                   | -                      | -                      | 700                   | -                     | -                      | -                      | -                     |
| Interest and dividend (Net of investment fees of \$777,887 and \$732,187 in 2014 and 2013, respectively) | 613,651               | 8,210                  | -                      | 621,861               | 1,185,368             | 167,392                | -                      | 1,352,760             |
| Net realized and unrealized gains on investments   | 15,435,122            | 3,033,245              | -                      | 18,468,367            | 11,804,299            | 2,372,496              | -                      | 14,176,795            |
| <b>Total</b>   | <b>16,420,877</b>     | <b>3,041,455</b>       | <b>-</b>               | <b>19,462,332</b>     | <b>13,432,810</b>     | <b>2,539,888</b>       | <b>-</b>               | <b>15,972,698</b>     |
| Net assets released from restrictions  | 1,171,289             | (1,171,289)            | -                      | -                     | 418,991               | (418,991)              | -                      | -                     |
| <b>Total support and revenue</b>   | <b>17,592,166</b>     | <b>1,870,166</b>       | <b>-</b>               | <b>19,462,332</b>     | <b>13,851,801</b>     | <b>2,120,897</b>       | <b>-</b>               | <b>15,972,698</b>     |
| <b>Expenses</b>  |                       |                        |                        |                       |                       |                        |                        |                       |
| Grants   | 6,152,672             | -                      | -                      | 6,152,672             | 5,221,127             | -                      | -                      | 5,221,127             |
| Salaries and employee benefits   | 801,616               | -                      | -                      | 801,616               | 779,424               | -                      | -                      | 779,424               |
| Purchased services, legal, and consulting  | 83,471                | -                      | -                      | 83,471                | 65,597                | -                      | -                      | 65,597                |
| Current and deferred excise tax expense  | 391,938               | -                      | -                      | 391,938               | 179,513               | -                      | -                      | 179,513               |
| Other operating expenses   | 224,898               | -                      | -                      | 224,898               | 214,531               | -                      | -                      | 214,531               |
| <b>Total expenses</b>  | <b>7,654,595</b>      | <b>-</b>               | <b>-</b>               | <b>7,654,595</b>      | <b>6,460,192</b>      | <b>-</b>               | <b>-</b>               | <b>6,460,192</b>      |
| <b>Excess of Revenue Over Expenses</b> - Before change in value of beneficial interests in trusts        | <b>9,937,571</b>      | <b>1,870,166</b>       | <b>-</b>               | <b>11,807,737</b>     | <b>7,391,609</b>      | <b>2,120,897</b>       | <b>-</b>               | <b>9,512,506</b>      |
| <b>Change in Value</b> - Beneficial interests in trusts  | <b>-</b>              | <b>-</b>               | <b>360,109</b>         | <b>360,109</b>        | <b>-</b>              | <b>-</b>               | <b>53,305</b>          | <b>53,305</b>         |
| <b>Increase in Net Assets</b>  | <b>9,937,571</b>      | <b>1,870,166</b>       | <b>360,109</b>         | <b>12,167,846</b>     | <b>7,391,609</b>      | <b>2,120,897</b>       | <b>53,305</b>          | <b>9,565,811</b>      |
| <b>Net Assets</b> - Beginning of year  | <b>106,745,235</b>    | <b>4,522,232</b>       | <b>19,574,491</b>      | <b>130,841,958</b>    | <b>99,353,626</b>     | <b>2,401,335</b>       | <b>19,521,186</b>      | <b>121,276,147</b>    |
| <b>Net Assets</b> - End of year  | <b>\$ 116,682,806</b> | <b>\$ 6,392,398</b>    | <b>\$ 19,934,600</b>   | <b>\$ 143,009,804</b> | <b>\$ 106,745,235</b> | <b>\$ 4,522,232</b>    | <b>\$ 19,574,491</b>   | <b>\$ 130,841,958</b> |

# Michael Reese Health Trust

## Statement of Cash Flows

|  | Year Ended          |                   |
|--|---------------------|-------------------|
|  | June 30, 2014       | June 30, 2013     |
| <b>Cash Flows from Operating Activities</b>  |                     |                   |
| Increase in net assets   | \$ 12,167,846       | \$ 9,565,811      |
| Adjustments to reconcile increase in net assets to net cash from operating activities: |                     |                   |
| Depreciation   | 5,079               | 13,144            |
| Realized and unrealized gains on investment  | (18,468,367)        | (14,176,795)      |
| Change in value of beneficial interest in trusts                                       | (360,109)           | (53,305)          |
| Changes in operating assets and liabilities which provided (used) cash:                |                     |                   |
| Other receivable   | -                   | 63,333            |
| Federal excise tax deposits  | 52,693              | (34,848)          |
| Prepaid expense  | 17,654              | (19,329)          |
| Grants payable   | 760,300             | (706,607)         |
| Deferred tax   | 253,070             | 54,361            |
| Accrued expense  | (6,597)             | (5,548)           |
| Net cash used in operating activities  | (5,578,431)         | (5,299,783)       |
| <b>Cash Flows from Investing Activities</b>  |                     |                   |
| Proceeds from sales of investments   | 19,013,553          | 34,992,113        |
| Purchases of investments   | (12,755,239)        | (29,461,899)      |
| Capital expenditures   | (2,208)             | -                 |
| Net cash provided by investing activities  | 6,256,106           | 5,530,214         |
| <b>Net Increase in Cash and Cash Equivalents</b>                                       | 677,675             | 230,431           |
| <b>Cash and Cash Equivalents - Beginning of year</b>                                   | 796,865             | 566,434           |
| <b>Cash and Cash Equivalents - End of year</b>   | <b>\$ 1,474,540</b> | <b>\$ 796,865</b> |

# Michael Reese Health Trust

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## Notes to Financial Statements June 30, 2014 and 2013

### Note I - Nature of Business and Significant Accounting Policies

**Organization Purpose** - Michael Reese Health Trust is a private charitable foundation which is the successor organization to Michael Reese Hospital Foundation (formerly Michael Reese Hospital and Medical Center) (the "Center"), Michael Reese Second Century Foundation, and Michael Reese Health Plan Foundation. The Center operated a tertiary care hospital for both primary and specialty care and served as a major teaching and research facility. After the sale of its operating assets and liabilities in 1991, the Center's mission was changed to that of a grant-making organization and its name was changed to Michael Reese Hospital Foundation, with the mission to support and encourage charitable, educational, and research activities related to health care in the Chicago metropolitan area. The Second Century Foundation and the Health Plan Foundation were entities affiliated with the Center and were included in the 1991 sale. These foundations were subsequently merged into the Michael Reese Hospital Foundation and the Foundation's name was changed to the Michael Reese Health Trust (the "Trust"), which continues to fulfill its mission.

**Basis of Accounting** - These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which requires the Trust to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Classification of Net Assets** - Net assets of the Trust are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Trust's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Board-designated net assets consist of funds set aside by the board of trustees for Fund for Innovation in Health and the Roe Health Improvement Funds.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Temporarily and permanently restricted net assets consist predominantly of funds for educational and research purposes.

**Cash Equivalents** - The Trust considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

The Trust maintains its cash and cash equivalents in bank deposits accounts at Urban Partnership Bank and Charles Schwab Institutional, which at times may exceed federally insured limits. The Trust 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, and losses and any investment-related expenses are recorded as changes in unrestricted net assets 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 temporarily restricted net assets 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 unrestricted net assets.

Earnings on permanently restricted endowment principal, including realized and unrealized gains or losses, are recorded as temporarily restricted investment income based on specific endowment restrictions.

The Trust'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 the Trust's financial statements.

The Trust's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the beginning of the year of change in circumstances that caused the transfer.

**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 currently is five years.

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

# Michael Reese Health Trust

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## Notes to Financial Statements June 30, 2014 and 2013

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

In addition, Michael Reese Health Trust 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 \$371,404 and \$443,143 was received from these entities during the years ended June 30, 2014 and 2013, respectively.

**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 same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

**Use of Estimates** - The preparation of financial statements in conformity 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Federal Income Taxes** - The Trust is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Trust and recognize a tax liability if the Trust has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Trust and has concluded that as of June 30, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Trust is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2011.

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The Trust is subject to an excise tax of 2 percent on its net investment income or 1 percent if the Trust meets certain specified distribution requirements. The Trust has paid excise tax at 2 percent and 1 percent for the years ended June 30, 2014 and 2013, respectively. Deferred excise tax represents taxes provided on the net unrealized appreciation on investments using either a 1 or 2 percent rate. For purposes of calculating the deferred excise tax, a 2 percent rate is used.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including November 5, 2014, which is the date the financial statements were available to be issued.

**Fair Value of Financial Instruments** - The fair value of short-term financial instruments, including cash and cash equivalents, other receivables, federal excise tax deposits, prepaid expenses, deferred federal excise tax, and accrued expenses, approximate the carrying amounts in the accompanying financial statements due to the short maturities of such instruments.

Investments and beneficial interest in trusts are recorded at fair value in the accompanying financial statements. Fair value is determined based on the fair value measurement principles described in Note 3.

### Note 2 - Investments

A summary of the composition of the Trust's portfolio is as follows:

|                                     | 2014                  | 2013                  |
|-------------------------------------|-----------------------|-----------------------|
| Mutual funds:                       |                       |                       |
| Large cap                           | \$ 33,554,455         | \$ 28,163,582         |
| Small/Mid cap                       | 10,069,254            | 6,444,030             |
| International                       | 12,252,190            | 9,911,610             |
| Fixed income                        | 13,293,632            | 14,166,374            |
| Domestic equity funds - Real assets | -                     | 3,554,165             |
| International equity funds          | 12,422,568            | 10,367,093            |
| Multi-strategy hedge funds:         |                       |                       |
| International                       | 6,384,537             | 6,045,354             |
| Absolute return                     | 17,962,827            | 17,212,413            |
| Real assets                         | 4,290,846             | 8,243,241             |
| Hedged equity funds                 | 15,793,853            | 11,862,214            |
| Private equity funds                | 15,787,289            | 13,631,322            |
| Total                               | <u>\$ 141,811,451</u> | <u>\$ 129,601,398</u> |

### 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 the Trust 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.

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 Trust'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 set forth by level within the fair value hierarchy the Trust's financial assets that were accounted for at fair value on a recurring basis as of June 30, 2014 and 2013.

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

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

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2014

|                              | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>June 30, 2014 |
|------------------------------|--|---|--|-----------------------------|
| Mutual funds:                |  |   |  |                             |
| Large cap                    | \$ 33,554,455  | \$ -  | \$ -   | \$ 33,554,455               |
| Small/Mid cap                | 10,069,254   | -   | -  | 10,069,254                  |
| International                | 12,252,190   | -   | -  | 12,252,190                  |
| Fixed income                 | 13,293,632   | -   | -  | 13,293,632                  |
| International equity funds   | -  | 12,422,568  | -  | 12,422,568                  |
| Multi-strategy hedge funds:  |  |   |  |                             |
| International                | -  | -   | 6,384,537  | 6,384,537                   |
| Absolute return              | -  | 9,993,732   | 7,969,095  | 17,962,827                  |
| Real assets                  | -  | -   | 4,290,846  | 4,290,846                   |
| Hedged equity funds          | -  | 6,155,852   | 9,638,001  | 15,793,853                  |
| Private equity funds         | -  | -   | 15,787,289   | 15,787,289                  |
| Total investments            | 69,169,531   | 28,572,152  | 44,069,768   | 141,811,451                 |
| Beneficial interest in trust | -  | -   | 4,874,161  | 4,874,161                   |
| Total assets                 | \$ 69,169,531  | \$ 28,572,152   | \$ 48,943,929                                      | \$ 146,685,612              |

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2013

|                                     | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>June 30, 2013 |
|-------------------------------------|--|---|--|-----------------------------|
| Mutual funds:                       |  |   |  |                             |
| Large cap                           | \$ 28,163,582  | \$ -  | \$ -   | \$ 28,163,582               |
| Small/Mid cap                       | 6,444,030  | -   | -  | 6,444,030                   |
| International                       | 9,911,610  | -   | -  | 9,911,610                   |
| Fixed income                        | 14,166,374   | -   | -  | 14,166,374                  |
| Domestic equity funds - Real assets | -  | 3,554,165   | -  | 3,554,165                   |
| International equity funds          | -  | 10,367,093  | -  | 10,367,093                  |
| Multi-strategy hedge funds:         |  |   |  |                             |
| International                       | -  | -   | 6,045,354  | 6,045,354                   |
| Absolute return                     | -  | 9,946,996   | 7,265,417  | 17,212,413                  |
| Real assets                         | -  | -   | 8,243,241  | 8,243,241                   |
| Hedged equity funds                 | -  | 3,168,239   | 8,693,975  | 11,862,214                  |
| Private equity funds                | -  | -   | 13,631,322   | 13,631,322                  |
| Total investments                   | 58,685,596   | 27,036,493  | 43,879,309   | 129,601,398                 |
| Beneficial interest in trust        | -  | -   | 4,514,052  | 4,514,052                   |
| Total assets                        | \$ 58,685,596  | \$ 27,036,493   | \$ 48,393,361                                      | \$ 134,115,450              |

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

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

#### Level 1 Inputs

Fair values for the Trust's mutual funds were based on quoted market prices.

#### Level 2 Inputs

Estimated fair values for domestic equity, international equity, multi-strategy hedge funds, and hedged equity funds were based on net asset value per share of the funds. Such net asset value is based on the value of the underlying assets and liabilities of the funds. These investments have the ability to be redeemed at net asset value within 90 days after year end.

#### Level 3 Inputs

Estimated fair values for multi-strategy hedge funds, hedged equity funds, and private equity funds were based on net asset values. Such net value is based on the value of the underlying assets and liabilities of the fund. These investments do not have the ability to be redeemed at net asset value within 90 days after year end. The estimated fair value for the beneficial interest in trusts is based on the value of the underlying assets and liabilities of the charitable trusts and the Trust's percentage share of each charitable trust.

The Trust has processes in place to select the appropriate valuation techniques and unobservable inputs to perform Level 3 fair value measurements. These processes include reviewing investment performance quarterly including comparisons to appropriate benchmarks for each asset class. In addition, the investment committee reviews investment performance quarterly and makes recommendations on material policy changes to the board as needed. The Trust cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market. The Trust utilizes a third-party investment manager to monitor, participate in fund management calls, and obtain underlying financial information on the Level 3 investments.

The following table sets forth a summary of the changes in the fair value of the Trust's Level 3 assets for the years ended June 30, 2014 and 2013.

|                                       | Fair Value at<br>July 1, 2013 | Total Gains<br>(Realized and<br>Unrealized)<br>Included in<br>Change in Net<br>Assets | Change in<br>Value of<br>Beneficial<br>Interest in<br>Trust | Transfers to<br>Level 2 | Purchases    | Settlements    | Fair Value at<br>June 30, 2014 |
|---------------------------------------|-------------------------------|---|---|-------------------------|--------------|----------------|--------------------------------|
| Multi-strategy hedge                  | \$ 21,554,012                 | \$ 927,974  | \$ -  | \$ -                    | \$ (174,661) | \$ (3,662,847) | \$ 18,644,478                  |
| Hedged equity                         | 8,693,975                     | 1,120,425   | -   | -                       | (176,399)    | -              | 9,638,001                      |
| Private equity                        | 13,631,322                    | 3,968,142   | -   | (106,116)               | 1,590,300    | (3,296,359)    | 15,787,289                     |
| Beneficial interest in trust          | 4,514,052                     | -   | 360,109   | -                       | -            | -              | 4,874,161                      |
| Total Level 3 assets at<br>fair value | \$ 48,393,361                 | \$ 6,016,541  | \$ 360,109  | \$ (106,116)            | \$ 1,239,240 | \$ (6,959,206) | \$ 48,943,929                  |

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

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

|                                       | Fair Value at<br>July 1, 2012 | Total Gains<br>(Realized and<br>Unrealized)<br>Included in<br>Change in Net<br>Assets | Change in<br>Value of<br>Beneficial<br>Interest in<br>Trust | Transfers from<br>Level 2 | Purchases           | Settlements            | Fair Value at<br>June 30, 2013 |
|---------------------------------------|-------------------------------|---|---|---------------------------|---------------------|------------------------|--------------------------------|
| Multi-strategy hedge                  | \$ 23,093,802                 | \$ 1,460,210  | \$ -  | \$ -                      | \$ -                | \$ (3,000,000)         | \$ 21,554,012                  |
| Hedged equity                         | 7,872,554                     | 821,421   | -   | -                         | -                   | -                      | 8,693,975                      |
| Private equity                        | 20,867,642                    | 4,530,227   | -   | 3,255,925                 | 1,240,742           | (16,263,214)           | 13,631,322                     |
| Beneficial interest in trust          | 4,460,747                     | -   | 53,305  | -                         | -                   | -                      | 4,514,052                      |
| Total Level 3 assets at<br>fair value | <u>\$ 56,294,745</u>          | <u>\$ 6,811,858</u>   | <u>\$ 53,305</u>  | <u>\$ 3,255,925</u>       | <u>\$ 1,240,742</u> | <u>\$ (19,263,214)</u> | <u>\$ 48,393,361</u>           |

For the year ended June 30, 2014 and 2013, transfers in and out of Level 3 resulted from changes of redemptions restrictions.

Realized and unrealized gains and losses of \$6,016,541 and \$6,811,858 for the years ended June 30, 2014 and 2013, respectively, are reported with realized and change in unrealized gains and losses on the statement of activities and changes in net assets.

#### Investments in Entities that Calculate Net Asset Value per Share

The Trust holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the 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, 2014 |                         |                                      |                             |
|-------------------------------|-----------------------------------|-------------------------|--------------------------------------|-----------------------------|
|                               | Fair Value                        | Unfunded<br>Commitments | Redemption<br>Frequency, if Eligible | Redemption<br>Notice Period |
| Hedged equity (a)(f)          | \$ 15,793,853                     | \$ -                    | Monthly to Annually                  | 30 to 90 days               |
| Multi-strategy hedge (b)      | 28,638,210                        | -                       | Monthly to Annually                  | 30 to 90 days               |
| Private equity (c)(f)         | 15,787,289                        | 11,890,566              | n/a                                  | n/a                         |
| International equity fund (d) | 12,422,568                        | -                       | Monthly                              | 30 days to 60 days          |
| Total                         | <u>\$ 72,641,920</u>              | <u>\$ 11,890,566</u>    |                                      |                             |

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

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

#### Investments Held at June 30, 2013

|                          | <u>Fair Value</u>    | <u>Unfunded<br/>Commitments</u> | <u>Redemption<br/>Frequency, if Eligible</u> | <u>Redemption<br/>Notice Period</u> |
|--------------------------|----------------------|---------------------------------|--|-------------------------------------|
| Hedged equity (a)(f)     | \$ 11,862,214        | \$ -                            | Quarterly to Annually                        | 45 to 90 days                       |
| Multi-strategy hedge (b) | 31,501,008           | -                               | Quarterly to Annually                        | 45 to 120 days                      |
| Private equity (c)       | 13,631,322           | 3,128,029                       | n/a  | n/a                                 |
| International equity (d) | 10,367,093           | -                               | Monthly                                      | 30 days to 60 days                  |
| Domestic equity (e)      | <u>3,554,165</u>     | <u>-</u>                        | Monthly                                      | 30 days                             |
| Total                    | <u>\$ 70,915,802</u> | <u>\$ 3,128,029</u>             |  |                                     |

- (a) This category includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stakes, and from a net long position to a net short position. The investments dominate exposure in the U.S. market, but will also take advantage of investment opportunities in Europe, Asia, and emerging markets. As of June 30, 2014 and 2013, 100 percent of the investments in this category have passed their initial lock-up period. However, some have terms that make full liquidity unavailable at the Trust's report date.
- (b) This category includes multi-strategy 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 positions targeting solid absolute risk-adjusted returns. As of June 30, 2014 and 2013, 100 percent of the investments in this category have passed their initial lock-up period. However, some have terms that make full liquidity unavailable at the Trust's report date.
- (c) This category includes primarily private equity funds that focus on U.S. and international buyout and venture capital 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 terms for these investments range from 5 to 12 years. As of June 30, 2014 and 2013, the fair values of the investments in this category have been estimated using net asset values provided by the investment manager.
- (d) This category includes investments in funds that focus on long-only international equities. The underlying assets are liquid and the fund's managers provide details of those assets. As of June 30, 2014 and 2013, all of the investments in the category have passed their initial lock-up periods and can be redeemed with no restrictions.
- (e) This category includes investments in funds that focus on long-only domestic equities. The underlying assets are liquid and the fund's managers provide details of those assets. As of June 30, 2014 and 2013, all of the investments in the category can be redeemed with no restrictions.
- (f) As of June 30, 2014 and 2013, included in private equity and hedged equity is \$91,144 and \$123,429, respectively, of liquidating assets in investments with three funds. Fund managers currently have no clarity on a timetable for conclusion of these funds.

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

### Note 4 - Grants Payable

Grants payable consist of multi-year unconditional grants that are generally payable over one to three years. Management estimates these grants will be paid as follows:

|       |                     |
|-------|---------------------|
| 2015  | \$ 2,638,800        |
| 2016  | 1,468,100           |
| 2017  | <u>87,500</u>       |
| Total | <u>\$ 4,194,400</u> |

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

The Trust's endowment consists of 28 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Trust 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** - The board of trustees of the Trust has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Trust and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Trust
- (7) The investment policies of the Trust

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

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

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2014

|                                  | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total                |
|----------------------------------|---------------------|------------------------|------------------------|----------------------|
| Donor-restricted endowment funds | \$ -                | \$ 6,392,398           | \$ 15,060,439          | \$ 21,452,837        |
| Board-designated endowment funds | 8,760,639           | -                      | -                      | 8,760,639            |
| Total funds                      | <u>\$ 8,760,639</u> | <u>\$ 6,392,398</u>    | <u>\$ 15,060,439</u>   | <u>\$ 30,213,476</u> |

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

|  | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total                |
|--|---------------------|------------------------|------------------------|----------------------|
| Endowment net assets - Beginning of year | \$ 8,522,077        | \$ 4,522,232           | \$ 15,060,439          | \$ 28,104,748        |
| Investment return:                       |                     |                        |                        |                      |
| Interest and dividends                   | 18,084              | 8,210                  | -                      | 26,294               |
| Realized and change in unrealized gains  | 520,478             | 3,033,245              | -                      | 3,553,723            |
| Appropriation of endowment assets        | (300,000)           | (1,171,289)            | -                      | (1,471,289)          |
| Endowment net assets - End of year       | <u>\$ 8,760,639</u> | <u>\$ 6,392,398</u>    | <u>\$ 15,060,439</u>   | <u>\$ 30,213,476</u> |

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2013

|                                  | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total                |
|----------------------------------|---------------------|------------------------|------------------------|----------------------|
| Donor-restricted endowment funds | \$ -                | \$ 4,522,232           | \$ 15,060,439          | \$ 19,582,671        |
| Board-designated endowment funds | 8,522,077           | -                      | -                      | 8,522,077            |
| Total funds                      | <u>\$ 8,522,077</u> | <u>\$ 4,522,232</u>    | <u>\$ 15,060,439</u>   | <u>\$ 28,104,748</u> |

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

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

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

|  | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total                |
|--|---------------------|------------------------|------------------------|----------------------|
| Endowment net assets -                   |                     |                        |                        |                      |
| Beginning of year                        | \$ 8,338,651        | \$ 2,401,335           | \$ 15,060,439          | \$ 25,800,425        |
| Interest and dividends                   | 36,404              | 167,392                | -                      | 203,796              |
| Realized and change in unrealized losses | 425,022             | 2,372,496              | -                      | 2,797,518            |
| Appropriation of endowment assets        | (278,000)           | (418,991)              | -                      | (696,991)            |
| Endowment net assets -                   |                     |                        |                        |                      |
| End of year                              | <u>\$ 8,522,077</u> | <u>\$ 4,522,232</u>    | <u>\$ 15,060,439</u>   | <u>\$ 28,104,748</u> |

**Return Objectives and Risk Parameters** - The primary objective of the Trust is to increase the purchasing power of the Trust'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 the Trust is to earn the highest possible total rate of return consistent with the Trust'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 donor-restricted funds that the Trust must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are categorized by asset classes. 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 with a reference fund comprised of 40 percent S&P 500, 5 percent Russell 2000, 20 percent MSCI EAFE, 10 percent Barclays U.S. Aggregate, and 25 percent T-Bills yield plus 5 percent.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Trust 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). The Trust 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** - Each year, the board of trustees approves the amount to be appropriated, taking into consideration the long-term expected return on its endowment.

# Michael Reese Health Trust

## Notes to Financial Statements June 30, 2014 and 2013

### Note 6 - Lease Commitments

The Trust leases its office space under a lease agreement that was extended to November 2020. The lease agreement requires monthly payments exclusive of inflation adjustments as required by the agreement.

The future minimum lease payments are as follows:

| Years Ending<br>June 30 | Amount            |
|-------------------------|-------------------|
| 2015                    | \$ 68,455         |
| 2016                    | 56,691            |
| 2017                    | 99,614            |
| 2018                    | 102,104           |
| 2019                    | 104,657           |
| 2020 and thereafter     | 153,088           |
| Total                   | <u>\$ 584,609</u> |

Rent expense for 2014 and 2013 was \$67,066 and \$65,549, respectively.

### Note 7 - Functional Expenses

The costs of providing the program and support services are reported on a functional basis. Costs are allocated between the various programs and support services on an actual basis, where available, or based on reasonable methods. Although methods of allocation used are considered appropriate, other methods could be used that produce different amounts. Expenses related to providing these services are as follows:

|                  | 2014                | 2013                |
|------------------|---------------------|---------------------|
| Program expenses | \$ 6,152,672        | \$ 5,221,127        |
| Administration   | 1,501,923           | 1,239,065           |
| Total            | <u>\$ 7,654,595</u> | <u>\$ 6,460,192</u> |

### Note 8 - Related Party

The majority of the board of trustees is appointed by the Jewish Federation of Metropolitan Chicago (the "Jewish Federation"). As of June 30, 2014 and 2013, grants payable to the Jewish Federation are \$270,000 and \$447,500, respectively. Grants awarded to the Jewish Federation were \$512,765 and \$1,094,112 for the years ended June 30, 2014 and 2013, respectively.