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# Michael Reese Health Trust

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**Financial Report**  
**June 30, 2024**

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## Independent Auditor's Report

To the Board of Directors  
Michael Reese Health Trust

### **Opinion**

We have audited the financial statements of Michael Reese Health Trust (Michael Reese), which comprise the statement of financial position as of June 30, 2024 and 2023 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Michael Reese as of June 30, 2024 and 2023 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Emphasis of Matter**

As described in Note 3, the financial statements include investments valued at \$152,996,155 (96.5 percent of net assets) and \$151,178,013 (96.3 percent of net assets) at June 30, 2024 and 2023, respectively, whose fair value has been estimated at net asset value in the absence of observable inputs used to determine market values. Net asset value is based on information provided by the fund managers of the general partners. Our opinion is not modified with respect to this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

To the Board of Directors  
Michael Reese Health Trust

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Michael Reese's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Michael Reese's ability to continue as a going concern for a reasonable period of time.

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

*Plante & Moran, PLLC*

November 8, 2024

**Statement of Financial Position**

**June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,567,207	\$ 3,088,406
Investments	152,996,155	151,495,781
Contribution receivable	415,000	-
Redemption receivable	2,000,000	-
Federal and state tax deposits	36,824	54,400
Prepaid expenses and other assets	51,613	36,998
Loans receivable	1,425,000	-
Beneficial interest in trusts	5,171,122	4,794,421
Equipment - Net of accumulated depreciation of \$82,551 and \$81,605, respectively	-	946
	<u>\$ 163,662,921</u>	<u>\$ 159,470,952</u>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Grants payable	\$ 4,852,054	\$ 1,796,854
Deferred federal excise tax	-	462,354
Accrued expenses	329,974	181,141
	<u>5,182,028</u>	<u>2,440,349</u>
Total liabilities		
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	112,523,528	106,694,742
Board designated	9,895,549	17,224,274
	<u>122,419,077</u>	<u>123,919,016</u>
Total without donor restrictions		
With donor restrictions	36,061,816	33,111,587
	<u>158,480,893</u>	<u>157,030,603</u>
Total net assets		
Total liabilities and net assets	<u>\$ 163,662,921</u>	<u>\$ 159,470,952</u>

## Michael Reese Health Trust

### Statement of Activities and Changes in Net Assets

Years Ended June 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue</b>						
Contributions	\$ 109,580	\$ 2,020,000	\$ 2,129,580	\$ 81,074	\$ 1,383,000	\$ 1,464,074
Contributions - Trusts and estates	378,192	-	378,192	425,854	-	425,854
Investment income - Net of expenses	10,906,627	2,560,563	13,467,190	8,697,257	2,019,501	10,716,758
Other income	462,468	-	462,468	-	-	-
Net assets released from restrictions	5,038,941	(5,038,941)	-	4,424,292	(4,424,292)	-
Reinvestment of unspent appropriations	(3,031,906)	3,031,906	-	-	-	-
Total revenue	13,863,902	2,573,528	16,437,430	13,628,477	(1,021,791)	12,606,686
<b>Expenses</b>						
Allocations of expenses:						
Programs	13,991,384	-	13,991,384	8,656,574	-	8,656,574
Management and general	1,134,146	-	1,134,146	1,384,122	-	1,384,122
Fundraising	238,311	-	238,311	166,096	-	166,096
Total expenses	15,363,841	-	15,363,841	10,206,792	-	10,206,792
<b>(Decrease) Increase in Net Assets - Before change in value of beneficial interests in trusts</b>	(1,499,939)	2,573,528	1,073,589	3,421,685	(1,021,791)	2,399,894
<b>Change in Value of Beneficial Interests in Trusts</b>	-	376,701	376,701	-	172,020	172,020
<b>(Decrease) Increase in Net Assets</b>	(1,499,939)	2,950,229	1,450,290	3,421,685	(849,771)	2,571,914
<b>Net Assets - Beginning of year</b>	123,919,016	33,111,587	157,030,603	120,497,331	33,961,358	154,458,689
<b>Net Assets - End of year</b>	<b>\$ 122,419,077</b>	<b>\$ 36,061,816</b>	<b>\$ 158,480,893</b>	<b>\$ 123,919,016</b>	<b>\$ 33,111,587</b>	<b>\$ 157,030,603</b>

**Statement of Functional Expenses**

**Year Ended June 30, 2024**

	Programs	Management and General	Fundraising	Total
Salaries	\$ 1,001,166	\$ 628,386	\$ 80,250	\$ 1,709,802
Taxes and benefits	412,743	220,303	53,270	686,316
Total salaries and related expenses	1,413,909	848,689	133,520	2,396,118
Grants and assistance	11,945,627	-	5,000	11,950,627
Special events	-	12,557	45,841	58,398
Professional fees	318,941	176,868	34,825	530,634
Public relations and marketing	18,185	-	18,069	36,254
Depreciation	946	-	-	946
Computer and IT maintenance	51,398	2,546	-	53,944
Occupancy	61,142	13,879	-	75,021
Printing and publications	3,990	3,316	-	7,306
Conferences and meetings	76,944	12,884	449	90,277
Business insurance	-	22,985	-	22,985
Supplies	4,993	51	29	5,073
Telecommunications	11,781	4,727	200	16,708
Training	1,227	-	-	1,227
Transportation and travel	19,598	311	26	19,935
Dues and subscriptions	49,545	32,417	352	82,314
Memorials	5,050	-	-	5,050
Other office expenses	8,108	2,094	-	10,202
Bank charges and fees	-	822	-	822
Total expenses	<b>\$ 13,991,384</b>	<b>\$ 1,134,146</b>	<b>\$ 238,311</b>	<b>\$ 15,363,841</b>

**Statement of Functional Expenses**

**Year Ended June 30, 2023**

	Programs	Management and General	Fundraising	Total
Salaries	\$ 774,675	\$ 788,611	\$ 79,918	\$ 1,643,204
Taxes and benefits	271,622	312,759	34,537	618,918
Total salaries and related expenses	1,046,297	1,101,370	114,455	2,262,122
Grants and assistance	7,219,912	-	5,000	7,224,912
Special events	-	2,420	38,028	40,448
Professional fees	55,578	135,462	-	191,040
Public relations and marketing	25,733	-	8,250	33,983
Depreciation	1,268	-	-	1,268
Computer and IT maintenance	66,060	-	-	66,060
Occupancy	17,831	20,788	-	38,619
Printing and publications	6,600	2,880	-	9,480
Conferences and meetings	103,555	7,882	210	111,647
Business insurance	-	22,790	-	22,790
Supplies	11,766	51	39	11,856
Telecommunications	13,308	5,115	-	18,423
Training	16,959	3,336	-	20,295
Transportation and travel	12,661	4,667	20	17,348
Dues and subscriptions	46,699	7,201	94	53,994
Unrelated business income taxes and excise taxes	-	60,287	-	60,287
Memorials	11,747	-	-	11,747
Other office expenses	600	8,427	-	9,027
Bank charges and fees	-	1,446	-	1,446
Total expenses	<b>\$ 8,656,574</b>	<b>\$ 1,384,122</b>	<b>\$ 166,096</b>	<b>\$ 10,206,792</b>

**Statement of Cash Flows**

**Years Ended June 30, 2024 and 2023**

	2024	2023
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 1,450,290	\$ 2,571,914
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	946	1,268
Realized and unrealized gains on investments	(13,467,190)	(10,716,758)
Change in value of beneficial interests in trusts	(376,701)	(172,020)
Gain on excise tax in other income	(462,354)	-
Changes in operating assets and liabilities that (used) provided cash:		
Contribution receivable	(415,000)	200,000
Redemption receivable	(2,000,000)	-
Federal excise tax deposits	17,576	-
Prepaid expenses and other assets	(14,615)	(2,293)
Loans receivable	(1,425,000)	-
Grants payable	3,055,200	(2,094,337)
Deferred federal excise tax	-	60,287
Accrued expenses	148,833	(33,329)
	(13,488,015)	(10,185,268)
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	11,974,316	7,626,728
Purchase of investments	(7,500)	(561,123)
	11,966,816	7,065,605
<b>Net cash provided by investing activities</b>		
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,521,199)	(3,119,663)
<b>Cash and Cash Equivalents - Beginning of year</b>	3,088,406	6,208,069
<b>Cash and Cash Equivalents - End of year</b>	\$ 1,567,207	\$ 3,088,406

**Note 1 - Nature of Business**

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

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

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

***Incubation***

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

***Grantmaking***

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

***Advocacy***

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

**Note 2 - Significant Accounting Policies**

***Basis of Accounting***

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

***Classification of Net Assets***

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

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

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

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

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

***Cash Equivalents***

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

Michael Reese maintains its cash and cash equivalents in bank deposit accounts at Wintrust Bank that at times may exceed federally insured limits.

***Investments and Related Income, Gains, and Losses***

Investments are presented in the financial statements at fair value.

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

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

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

***Loans Receivable***

Michael Reese entered into non-interest-bearing loans that have maturity dates ranging from December 31, 2024 to December 31, 2025. Loans receivable are reported at original issue amount less principal repaid. Michael Reese evaluates loans receivable to determine the allowance for credit losses, considering expected losses, actual historical loss rates adjusted for current economic conditions, and reasonable and supportable forecasts. No allowance for credit losses was recorded as of June 30, 2024.

***Equipment***

Equipment is stated at its estimated market value at the date donated or at cost, if purchased. Depreciation was computed using the straight-line method over the estimated useful lives of the assets. As of June 30, 2024, the equipment is fully depreciated.

***Beneficial Interest in Trusts***

Michael Reese was named an income beneficiary for various beneficial interests in perpetual trusts. Under the terms of the perpetual trusts, Michael Reese is to receive a portion of the trusts' annual net income based on the percentage of the trust allocated to Michael Reese. Payments from these entities range between 6.60 and 100 percent of the net income generated by these trusts.

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

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

Income from all trusts is recorded at the time the payment is received. Income of \$378,192 and \$425,854 was received from these entities during the years ended June 30, 2024 and 2023, respectively.

***Grants Payable***

Grants payable consist of unconditional grants mostly payable within one year. Unconditional grants are recognized as expense at the time of approval by the grant committee. Conditional grants (those with a measurable performance or other barrier and a right of return) are expensed when such conditions are substantially met. During the years ended June 30, 2024 and 2023, there were no approved conditional grants excluded from expense.

***Contributions***

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when the promise is received and measured at fair value. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend have been met. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

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

***Federal Income Taxes***

Michael Reese operates as a public foundation and is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3), as noted in Note 6.

The deferred federal excise tax on the statement of financial position represented the tax on realized gains on investment in securities that would have been payable if Michael Reese was determined not to be a public foundation. Excise tax was recorded on the statement of activities and changes in net assets in the net realized gains on investments during 2023 and is shown as other income in 2024 after the IRS approved the public foundation status.

***Functional Allocation of Expenses***

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

***Use of Estimates***

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

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including November 8, 2024, which is the date the financial statements were available to be issued.

**Note 3 - Fair Value Measurements**

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

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

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

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

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

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

The following tables present information about Michael Reese’s assets measured at fair value on a recurring basis at June 30, 2024 and 2023 and the valuation techniques used by Michael Reese to determine those fair values:

<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2024</u>				
	<u>Quoted Prices in</u>			
	<u>Active Markets</u>	<u>Significant Other</u>	<u>Significant</u>	
	<u>for Identical</u>	<u>Observable</u>	<u>Unobservable</u>	
	<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>	<u>Balance at</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>June 30, 2024</u>
Investments - Beneficial interest in trusts	\$ -	\$ -	\$ 5,171,122	\$ 5,171,122
Investments measured at NAV:				
Pooled endowment portfolio				140,783,866
Private equity funds				<u>12,212,289</u>
Total investments measured at NAV				<u>152,996,155</u>
Total assets				<u>\$ 158,167,277</u>

June 30, 2024 and 2023

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

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2023			Balance at June 30, 2023
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Common stock	\$ 317,768	\$ -	\$ -	\$ 317,768
Beneficial interest in trusts	-	-	4,794,421	4,794,421
<b>Total</b>	<b>\$ 317,768</b>	<b>\$ -</b>	<b>\$ 4,794,421</b>	<b>5,112,189</b>
Investments measured at NAV:				
Pooled endowment portfolio				135,983,294
Private equity funds				15,194,719
<b>Total investments measured at NAV</b>				<b>151,178,013</b>
<b>Total assets</b>				<b>\$ 156,290,202</b>

**Level 3 Inputs**

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

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

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

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

	Investments Held at June 30, 2024			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity (a)	\$ 12,212,289	\$ 2,835,594	N/A	N/A
Pooled endowment portfolio (b)	140,783,866	-	Monthly	30 days
<b>Total</b>	<b>\$ 152,996,155</b>	<b>\$ 2,835,594</b>		
	Investments Held at June 30, 2023			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity (a)	\$ 15,194,719	\$ 2,883,188	N/A	N/A
Pooled endowment portfolio (b)	135,983,294	-	Monthly	30 days
<b>Total</b>	<b>\$ 151,178,013</b>	<b>\$ 2,883,188</b>		

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

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

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

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

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

	2024	2023
Subject to expenditures for a specific purpose	\$ -	\$ 889,366
Subject to the appropriation and satisfaction of purpose restriction:		
Endowment - Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	20,064,531	20,069,531
Endowment - Accumulated investment gains	10,826,163	7,358,269
Total	30,890,694	27,427,800
Beneficial interest in trusts	5,171,122	4,794,421
Total net assets with donor restrictions	\$ 36,061,816	\$ 33,111,587

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

Michael Reese's endowment consists of 27 individual funds established for a variety of purposes. The endowment includes both endowment funds with donor restrictions and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Michael Reese does not consider its beneficial interest in the perpetual trusts to be part of its endowment since it has no control over the assets included in the perpetual trusts. Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

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

*Interpretation of Relevant Law*

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

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

Endowment Net Asset Composition by Type of Fund  
as of June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 7,411,447	\$ -	\$ 7,411,447
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	20,064,531	20,064,531
Accumulated investment gains	-	10,826,163	10,826,163
Total donor-restricted endowment funds	-	30,890,694	30,890,694
Total	\$ 7,411,447	\$ 30,890,694	\$ 38,302,141

Changes in Endowment Net Assets for the Fiscal  
Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 14,224,274	\$ 27,427,800	\$ 41,652,074
Contributions	28,020	-	28,020
Interest and dividends	69,864	158,647	228,511
Realized and change in unrealized gain	1,057,748	2,401,916	3,459,664
Appropriation of endowment assets for expenditure	(4,936,553)	(2,129,575)	(7,066,128)
Reinvestment of unspent appropriations	(3,031,906)	3,031,906	-
Endowment net assets - End of year	\$ 7,411,447	\$ 30,890,694	\$ 38,302,141

June 30, 2024 and 2023

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

	Endowment Net Asset Composition by Type of Fund as of June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 14,224,274	\$ -	\$ 14,224,274
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	20,069,531	20,069,531
Accumulated investment gains	-	7,358,269	7,358,269
Total donor-restricted endowment funds	-	27,427,800	27,427,800
Total	\$ 14,224,274	\$ 27,427,800	\$ 41,652,074
	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 13,614,707	\$ 26,615,587	\$ 40,230,294
Contributions	26,205	-	26,205
Interest and dividends	39,660	71,037	110,697
Realized and change in unrealized gain	1,087,825	1,948,464	3,036,289
Appropriation of endowment assets for expenditure	(544,123)	(1,207,288)	(1,751,411)
Endowment net assets - End of year	\$ 14,224,274	\$ 27,427,800	\$ 41,652,074

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Michael Reese to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$72,085 and \$81,510 as of June 30, 2024 and 2023, respectively. These deficiencies resulted from unfavorable market fluctuations.

**Return Objectives and Risk Parameters**

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

**Strategies Employed for Achieving Objectives**

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

**June 30, 2024 and 2023**

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

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

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

**Note 6 - Public Foundation Status**

Effective July 1, 2018, Michael Reese was operating as a public foundation under a five-year evaluation period. The evaluation period ended June 30, 2023 measured public support, with IRS Section 509(a)(1) requiring the organization to have received at least one-third of its support from contributions from the general public or to have met the 10 percent facts and circumstances test. As of June 30, 2023, Michael Reese filed for reclassification of foundation status. As of June 30, 2024, the IRS approved Michael Reese's status as a public foundation.

**Note 7 - Related Party Transactions**

The Jewish Federation of Metropolitan Chicago (the "Jewish Federation") is the sole member of Michael Reese. The majority of the board of directors is appointed by the Jewish Federation. As of June 30, 2024 and 2023, grants payable to the Jewish Federation and its affiliates were \$793,400 and \$801,600, respectively. Grants awarded to the Jewish Federation and its affiliates were \$1,776,894 and \$2,003,954 for the years ended June 30, 2024 and 2023, respectively.

Michael Reese maintains an investment pool to the Jewish Federation of Metropolitan Chicago's Pooled Endowment Portfolio. The primary investor in PEP is the Jewish Federation. Certain Jewish Federation affiliate beneficiary agencies, such as Michael Reese, are also allowed to invest in PEP. As of June 30, 2024 and 2023, Michael Reese had investments of approximately \$141 million and \$136 million in PEP, making up approximately 92 and 90 percent, respectively, of Michael Reese's investments.

**June 30, 2024 and 2023**

**Note 8 - Liquidity**

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 1,567,207	\$ 3,088,406
Investments	152,996,155	151,495,781
Beneficial interests in trusts	5,171,122	4,794,421
Contributions receivable	415,000	-
Redemption receivable	2,000,000	-
Loans receivable	1,425,000	-
	<u>163,574,484</u>	<u>159,378,608</u>
Financial assets - At year end		
Less amounts not available for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Subject to satisfaction of donor restrictions	-	889,366
Subject to appropriation and satisfaction of donor restrictions	10,780,843	7,358,269
Perpetual restrictions	20,064,531	20,069,531
Beneficial interests in trusts	5,171,122	4,794,421
Investments held in private equity funds	12,212,289	15,194,719
Loans receivable collectible after one year	300,000	-
Board-designated net assets - Net	9,498,326	16,879,494
	<u>9,498,326</u>	<u>16,879,494</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 105,547,373</u>	<u>\$ 94,192,808</u>

Michael Reese's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use, if applicable. As of June 30, 2024 and 2023, donor-restricted endowment funds are not available for general expenditure.

Michael Reese's board-designated net assets of \$9,895,549 and \$17,224,274 as of June 30, 2024 and 2023, respectively, are subject to annual approval by the board of directors of \$397,223 and \$344,780, respectively, to be appropriated in the next fiscal year. Although Michael Reese does not intend to spend from these endowments (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary. Michael Reese's accumulated investment gains on the donor restricted endowment funds of \$10,826,163 as of June 30, 2024 have \$45,320 expected to be appropriated in the next fiscal year.

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