



**HEALTHCARE FOUNDATION OF  
NORTHERN LAKE COUNTY**

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FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

For the Years Ended May 31, 2019 and 2018

The background of the lower half of the cover is an abstract, grayscale geometric pattern. It consists of numerous overlapping, semi-transparent planes and lines that create a sense of depth and complexity, resembling a digital or architectural structure.

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**HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Healthcare Foundation of Northern Lake County

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

We have audited the accompanying financial statements of Healthcare Foundation of Northern Lake County (Foundation), which comprise the statement of financial position as of May 31, 2019 and the related statement of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Healthcare Foundation of Northern Lake County as of May 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Prior Period Financial Statements*

The financial statements of Healthcare Foundation of Northern Lake County as of May 31, 2018, were audited by other auditors whose report dated November 19, 2018, expressed an unmodified opinion on those statements.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, the Foundation adopted new accounting guidance as issued by the Financial Accounting Standards Board under Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*Sikich LLP*  
Springfield, Illinois  
November 25, 2019

## **FINANCIAL STATEMENTS**

# HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

## STATEMENTS OF FINANCIAL POSITION

May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 910,124	\$ 891,515
Contribution Receivable	-	335,752
Investments	55,868,167	58,279,929
Prepaid expenses	5,867	14,839
Accrued investment income	19,016	14,766
Federal excise tax deposit	61,056	-
Total current assets	<u>56,864,230</u>	<u>59,536,801</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>1,355</u>	<u>2,807</u>
<b>OTHER ASSETS</b>		
Investments - endowment	323,971	-
Assets limited to use	342,281	331,744
Total other assets	<u>666,252</u>	<u>331,744</u>
<b>TOTAL ASSETS</b>	<u>\$ 57,531,837</u>	<u>\$ 59,871,352</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 7,192	\$ 13,392
Grants and awards payable	1,511,925	1,550,500
Other accrued expenses	5,343	5,084
Federal excise tax payable	-	1,423
Total current liabilities	<u>1,524,460</u>	<u>1,570,399</u>
<b>NET ASSETS</b>		
Without donor restriction	55,683,406	57,965,201
With donor restriction	323,971	335,752
Total net assets	<u>56,007,377</u>	<u>58,300,953</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 57,531,837</u>	<u>\$ 59,871,352</u>

See accompanying notes to financial statements.

# HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

## STATEMENTS OF ACTIVITIES

For the Years Ended May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION</b>		
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Investment income, net	\$ 730,520	\$ 4,759,033
Miscellaneous income	3,677	9,775
Net asset released from restriction	13,123	-
Total revenues without donor restriction	<u>747,320</u>	<u>4,768,808</u>
<b>EXPENSES</b>		
Program services	2,904,252	2,362,438
Management and general	124,863	100,863
Total expenses	<u>3,029,115</u>	<u>2,463,301</u>
Change in net assets without donor restriction	<u>(2,281,795)</u>	<u>2,305,507</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTION</b>		
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Contributions	-	335,752
Investment income, net	1,342	-
Net assets released from restriction	(13,123)	-
Change in net assets with donor restriction	<u>(11,781)</u>	<u>335,752</u>
CHANGE IN NET ASSETS	(2,293,576)	2,641,259
NET ASSETS, BEGINNING OF YEAR	<u>58,300,953</u>	<u>55,659,694</u>
NET ASSETS, END OF YEAR	<u>\$ 56,007,377</u>	<u>\$ 58,300,953</u>

See accompanying notes to financial statements.

**HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended May 31, 2019

	<b>Program Services</b>				<b>Total Expenses</b>	<b>2018 Total</b>
	<b>Grants</b>	<b>Grants Administration</b>	<b>Total Program Services</b>	<b>Management and General</b>		
Grants awarded expense	\$ 2,288,442	\$ -	\$ 2,288,442	\$ -	\$ 2,288,442	\$ 1,895,466
Wages and benefits	-	429,422	429,422	31,467	460,889	395,631
Advertising	-	6,840	6,840	-	6,840	885
Licenses and fees	-	435	435	-	435	25
Depreciation	-	1,408	1,408	44	1,452	2,081
Dues and memberships	-	2,100	2,100	-	2,100	2,475
Equipment maintenance	-	4,090	4,090	-	4,090	4,086
Insurance	-	2,845	2,845	150	2,995	2,993
Occupancy	-	18,839	18,839	582	19,421	20,297
Office supplies	-	2,132	2,132	66	2,198	1,720
Postage and shipping	-	632	632	-	632	408
Printing and publications	-	3,198	3,198	99	3,297	1,007
Professional fees	-	124,455	124,455	29,557	154,012	66,736
Travel, conferences and meetings	-	18,454	18,454	293	18,747	15,327
Provision for excise taxes	-	-	-	48,521	48,521	35,423
Other miscellaneous	-	960	960	14,084	15,044	18,741
<b>Total</b>	<b>\$ 2,288,442</b>	<b>\$ 615,810</b>	<b>\$ 2,904,252</b>	<b>\$ 124,863</b>	<b>\$ 3,029,115</b>	<b>\$ 2,463,301</b>

See accompanying notes to financial statements.



# HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

## STATEMENTS OF CASH FLOWS

For the Years Ended May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (2,293,576)	\$ 2,641,259
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,452	2,081
Unrealized gains on investments, net	4,192,879	(1,875,959)
Realized gains on investments, net	(2,808,524)	(1,304,049)
Accrued income on assets limited as to use	(10,537)	(7,269)
(Increase) decrease in:		
Contribution receivable	335,752	(335,752)
Prepaid expenses	8,972	(9,110)
Accrued investment income	(4,250)	(2,855)
Federal excise tax deposit	(61,056)	-
Increase (decrease) in:		
Accounts payable	(6,200)	6,631
Grants and awards payable	(38,575)	(224,750)
Other accrued expenses	259	715
Federal excise tax payable	(1,423)	1,172
Net cash and cash equivalents (used by) operating activities	<u>(684,827)</u>	<u>(1,107,886)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	(1,122)
Purchases of investments	(10,269,703)	(1,631,714)
Proceeds from sale of investments	<u>10,973,139</u>	<u>2,880,000</u>
Net cash and cash equivalents provided from investing activities	<u>703,436</u>	<u>1,247,164</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	18,609	139,278
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>891,515</u>	<u>752,237</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 910,124</u>	<u>\$ 891,515</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for excise taxes	<u>\$ 110,000</u>	<u>\$ 34,251</u>

See accompanying notes to financial statements.

# HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended May 31, 2019 and 2018

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### 1. NATURE OF ACTIVITIES

The Healthcare Foundation of Northern Lake County (Foundation) is an Illinois not-for-profit corporation located in Waukegan, Illinois, that is organized to support, benefit, promote, fund and arrange for access to health care services and health education focused primarily on residents who reside within the former Victory Memorial Hospital and St. Therese Medical Center's primary and secondary service areas, which are communities in Northern Lake County, Illinois. The primary purposes for which the Foundation's funds shall be used shall be: (1) provide funds for the delivery of health care services, medical supplies, pharmaceuticals and health care equipment to the community, in order to promote the health status thereof, (2) provide funds for health education services to the residents of the community, with a primary emphasis on meeting the needs of uninsured, underinsured and medically underserved residents thereof, and (3) provide funds for post-secondary educational costs through scholarships for residents of the community in health career-related fields.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Method of Accounting

Assets, liabilities, revenues and expenses are recognized on the accrual basis method of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

#### Basis of Presentation

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified as follows:

#### Net Assets Without Donor Restriction:

Undesignated - Net assets that are not subject to donor-imposed restrictions or board - imposed stipulations.

Designated - Net assets subject to stipulations imposed by the Board of Directors and determined to be unavailable for general use.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued)

Net Assets With Donor Restriction:

Net assets subject to donor-imposed restrictions that either expire by passage of time, can be fulfilled and removed by actions of the Foundation pursuant to those restrictions, or are maintained permanently by the Foundation. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

The Foundation maintains its cash and cash equivalents at one financial institution which, at times, may exceed federally insured limits. At May 31, 2019 and 2018, the Foundation's cash accounts exceeded federally insured limits by approximately \$662,000 and \$676,000, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments

Investments are stated at fair value, which is based on quoted market prices. Dividends and interest, realized gains and losses and changes in unrealized gains and losses are included in investment income (loss) on the Foundation's statement of activities net of external and direct internal expenses. Investment income and appreciation/depreciation earned on investments is reported as income without donor restriction unless otherwise restricted by the donor.

Assets Limited as to Use

At May 31, 2019 and 2018, assets limited as to use is a deposit held by a third party on behalf of the Foundation.

The carrying amount of this asset is reduced by a valuation allowance that reflects management's best estimate of the amount that may not be collected due to the uncertainty that one or more future events occur or fail to occur.

Grants and Awards Payable

Grants and awards payable represent unconditional promises to give cash and are recorded as liabilities when they are authorized by the Board of Directors. Grants that are payable in two years or less are recorded at their net settlement value.

Property and Equipment

Property and equipment are recorded at cost. It is the Foundation's policy to capitalize all property and equipment expenditures greater than \$500. Certain expenditures less than \$500 may be capitalized at the discretion of management. Maintenance, repairs, and renewals that neither materially add to the value of the property nor significantly prolong its life are charged to expense as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets, generally three to seven years for furniture and fixtures, computer software and office and computer equipment and three to fifteen years for leasehold improvements.

**HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition

Revenues are recognized when earned. Revenues received by the Foundation consist primarily of contributions and investment gains.

Contributions are recognized as revenue when they are received or unconditionally pledged. Revenues are reported in net assets without donor restrictions, unless use of the related assets is limited by the donor-imposed restrictions. Donor-restricted contributions and investment income whose restrictions are met within the same year as received are reflected in the change in net assets without donor restrictions.

Retirement Plan

The Foundation has a defined contribution retirement plan qualified under Section 403(b) of the Internal Revenue Code for full time employees. The plan agreement provides for employer contributions based on a set percentage of salary which was 10% during the years ended May 31, 2019 and 2018. Total employer contributions for this plan for the years ended May 31, 2019 and 2018 totaled \$38,906 and \$31,328, respectively.

Advertising Costs

The Foundation uses advertising primarily to promote its mission. Advertising costs are expensed as incurred. Advertising expense for the years ended May 31, 2019 and 2018 was \$6,840 and \$885, respectively.

Federal Excise Taxes

The Foundation is acting as a private foundation under Section 509(a) of the Internal Revenue Code. In accordance with the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined by the Act.

The Act also requires that certain minimum distributions, including qualified set-asides, be made each year based on the level of assets during the preceding year. The amount of these qualified distributions is determined in accordance with a specified formula. If the required level of qualified distributions is not made within a year, an additional excise tax is imposed on the Foundation. The grants paid during the year ended May 31, 2019 and 2018 satisfied the required distributions as computed as of May 31, 2018 and 2017, respectively.

Income Taxes

The Foundation is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is classified as a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Functional Allocation of Expenses

The costs of programs and operations have been summarized on a functional basis in the statement of activities and the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses which are directly associated with a particular program or supporting service are allocated directly to that functional category. Certain costs, primarily wages and benefits, have been allocated among functional categories based on estimated time and effort spent on programs.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Subtopic 958)*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net asset with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Foundation has adopted this ASU as of and for the year ended May 31, 2019 and has applied the changes retrospectively to all periods presented, except for the statement of functional expenses and disclosures around liquidity and availability of resources. These have been presented for 2019 only, as allowed by ASU No. 2016-14. As a result, \$82,054 was reclassified from management and general expense to investment income for 2018.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Future Accounting Pronouncements

FASB issued ASU No. 2016-02, *Leases (Topic 842) (ASU 2016-02)*, to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. ASU 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new lease standard at the beginning of the earliest period presented in the financial statements. In July 2018, FASB issued ASU No. 2018-11, "*Leases (Topic 842): Targeted Improvements*" providing a second, optional transition method which allows the entity to apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Foundation is currently assessing the impacts of this new standard, including the two optional transition methods.

Subsequent Events

The Foundation has evaluated subsequent events through, November 25, 2019, the date on which the financial statements were available to be issued.

**3. LIQUIDITY AND AVAILABILITY**

The Foundation has \$56,797,307 of financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date, as noted in the current assets section of the statement. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Foundation maintains liquid financial assets, consisting of cash and short-term investments, on hand to meet its normal monthly operating expenses. To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Foundation will periodically provide the investment consultant with an estimate of expected net cash flow. The Foundation will notify the investment consultant, in a timely manner, to allow sufficient time to build up necessary liquid reserves.

**4. CONTRIBUTION RECEIVABLE**

Contribution receivable as of May 31, 2018 consisted of one contribution. Payments on the contribution receivable was fully collected during fiscal year 2019.

## **5. FAIR VALUE MEASUREMENTS**

GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. GAAP requires the Foundation to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Significant unobservable inputs.

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

The Foundation recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the years ended May 31, 2019 and 2018.

### Valuation Techniques

Following is a description of the valuation techniques used for assets measured at fair value on a recurring basis. There have been no changes to the techniques used during the year ended May 31, 2019 and 2018:

*Mutual Funds:* Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year.



**HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**5. FAIR VALUE MEASUREMENTS (Continued)**

Recurring Measurements

Assets measured at fair value on a recurring basis as of May 31, 2019 and 2018 were as follows:

	<b>May 31, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual Funds	\$ 56,192,138	\$ -	\$ -	\$ 56,192,138
<b>TOTAL</b>	<b>\$ 56,192,138</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 56,192,138</b>

	<b>May 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual Funds	\$ 58,279,929	\$ -	\$ -	\$ 58,279,929
<b>TOTAL</b>	<b>\$ 58,279,929</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 58,279,929</b>

**6. ASSETS LIMITED AS TO USE**

In accordance with an assignment agreement dated October 10, 2012, Victory Wind-Down Company, which was formed to wind down the remaining assets and liabilities of the Victory Memorial Hospital and Vista Health/St. Therese Medical Center, which ceased operations on June 30, 2006, assigned the Illinois Workers' Compensation Commission (IWCC) deposit to the Foundation, which is subject to future claims related to the operations of the hospitals.

The deposit is a \$625,000 cash deposit held by the IWCC, plus accrued interest, less any workers' compensation claims filed and found compensable. The Foundation will be granted access to these funds upon the later of the expiring of the statute of limitations for such claims to be filed (June 2031), or the date that the last open claim is closed. The balance of this deposit was \$656,281 and \$645,744 at May 31, 2019 and 2018, respectively, and due to the uncertain outcome of future events, the Foundation has recorded a valuation allowance of \$314,000 against this asset.

In accordance with the assignment agreement, the Foundation expressly does not assume or agree to pay, perform or discharge when due, any liability or other obligation related to the asset or Victory Wind-Down, and Victory Wind-Down acknowledged and agreed that any such liability or obligation shall remain that of Victory Wind-Down.

**HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**7. OPERATING LEASES**

The Foundation entered into a lease dated November 1, 2016 for office space for its office in Waukegan, Illinois. The agreement terminated on September 30, 2018. The agreement called for Monthly rent of \$1,089. This agreement was renewed on October 1, 2018 and terminates September 30, 2020. The lease agreement calls for monthly rent of \$950 plus monthly operating charges for maintenance and utilities, and provides a renewal option. Total rent expense was \$11,957 and \$13,070 for the years ended May 31, 2019 and 2018, respectively.

Future minimum rental payments under this lease as of May 31, 2019 are as follows:

2020	\$	11,400
2021		<u>3,800</u>
Total future minimum lease payments	\$	<u><u>15,200</u></u>

**8. RISKS AND UNCERTAINTIES**

Concentrations of Funding Source

The Foundation's primary source of funding was from the net proceeds remaining from the sale of the Vista Health System facilities, including Victory Memorial Hospital and St. Therese Medical Center, to Community Health Systems. Net sale proceeds received totaled \$335,752 in 2018. Cumulative net sale proceeds distributed to the Foundation in prior years was approximately \$52,594,000. The Foundation does not anticipate receiving any additional sale proceeds in future years.

**9. ENDOWMENT FUNDS**

Interpretation of Relevant Law Governing Endowments

The Board of Directors of the Foundation 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 Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (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. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

**9. ENDOWMENT FUNDS (Continued)**

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment Investment and Spending Policies

The Foundation has adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for the donor-specified periods. Under the Foundation's policy, which was approved by the Board of Directors, the investment portfolio shall be managed to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of Foundation assets. The investment portfolio is also expected to generate interest and dividend income to protect the portfolio from inflation. The investment portfolio is subject to periodic review to ensure this objective is met.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (investment income such as interest and dividends).

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation. Such endowments are often referred to as "underwater" endowments. Deficiencies of this nature exist in the Foundation's only endowment fund. The endowment fund has an original gift amount of \$335,752, a current fair value of \$323,971, and a deficiency of \$11,781 as of May 31, 2019. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of the contributions for donor-restricted endowment funds and continued appropriation for programs that was deemed prudent by the Board. The Board has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation had no underwater endowments as of May 31, 2018.

**HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**9. ENDOWMENT FUNDS (Continued)**

Donor Restricted Endowment Funds

Endowment net assets as of the years ended were as follows:

	<u>May 31, 2019</u>		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	\$ -	\$ 335,752	\$ 335,752
Accumulated investment loss	-	(11,781)	(11,781)
Total funds	<u>\$ -</u>	<u>\$ 323,971</u>	<u>\$ 323,971</u>

	<u>May 31, 2018</u>		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	\$ -	\$ 335,752	\$ 335,752
Accumulated investment loss	-	-	-
Total funds	<u>\$ -</u>	<u>\$ 335,752</u>	<u>\$ 335,752</u>

Changes in endowment net assets as of and for the years ended were as follows:

	<u>May 31, 2019</u>		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Endowment net assets, beginning of year	\$ -	\$ 335,752	\$ 335,752
Investment return	-	1,342	1,342
Appropriation of endowment assets for spending	-	(13,123)	(13,123)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 323,971</u>	<u>\$ 323,971</u>

**HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**9. ENDOWMENT FUNDS (Continued)**

Donor Restricted Endowment Funds (Continued)

	<b>May 31, 2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Contributions	-	335,752	335,752
Investment return	-	-	-
Appropriation of endowment assets for spending	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 335,752</u>	<u>\$ 335,752</u>