



**HEALTHCARE FOUNDATION OF
NORTHERN LAKE COUNTY**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Years Ended May 31, 2020 and 2019

The background of the lower half of the cover is an abstract, monochromatic 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. The colors are shades of gray and white, with a teal band at the top and an orange band at the bottom.

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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 statements of financial position as of May 31, 2020 and 2019 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation adopted new accounting guidance as issued by the Financial Accounting Standards Board under Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The adoption of this ASU did not result in a change to the accounting for any of the entity's revenue streams or grants made awards; as such, no cumulative adjustment was recorded. Our opinion is not modified with respect to this matter.

Sikich LLP

Springfield, Illinois
November 23, 2020

FINANCIAL STATEMENTS

HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

STATEMENTS OF FINANCIAL POSITION

May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,002,885	\$ 910,124
Investments	56,784,449	55,868,167
Prepaid expenses	11,481	5,867
Accrued investment income	18,897	19,016
Federal excise tax deposit	3,700	61,056
Total current assets	<u>57,821,412</u>	<u>56,864,230</u>
PROPERTY AND EQUIPMENT, NET	<u>1,964</u>	<u>1,355</u>
OTHER ASSETS		
Investments - endowment	281,617	323,971
Assets limited to use	350,552	342,281
Total other assets	<u>632,169</u>	<u>666,252</u>
TOTAL ASSETS	<u>\$ 58,455,545</u>	<u>\$ 57,531,837</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 33,250	\$ 7,192
Grants and awards payable	1,645,500	1,511,925
Other accrued expenses	7,544	5,343
Total current liabilities	<u>1,686,294</u>	<u>1,524,460</u>
NET ASSETS		
Without donor restriction	56,487,634	55,683,406
With donor restriction	281,617	323,971
Total net assets	<u>56,769,251</u>	<u>56,007,377</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 58,455,545</u>	<u>\$ 57,531,837</u>

See accompanying notes to financial statements.

HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

STATEMENTS OF ACTIVITIES

For the Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION		
REVENUES, GAINS AND OTHER SUPPORT		
Investment income, net	\$ 3,834,079	\$ 730,520
Miscellaneous income	-	3,677
Net asset released from restriction	18,274	13,123
Total revenues without donor restriction	<u>3,852,353</u>	<u>747,320</u>
EXPENSES		
Program services	2,911,843	2,904,252
Management and general	136,282	124,863
Total expenses	<u>3,048,125</u>	<u>3,029,115</u>
Change in net assets without donor restriction	<u>804,228</u>	<u>(2,281,795)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTION		
REVENUES, GAINS AND OTHER SUPPORT		
Investment income, net	(24,080)	1,342
Net assets released from restriction	(18,274)	(13,123)
Change in net assets with donor restriction	<u>(42,354)</u>	<u>(11,781)</u>
CHANGE IN NET ASSETS	761,874	(2,293,576)
NET ASSETS, BEGINNING OF YEAR	<u>56,007,377</u>	<u>58,300,953</u>
NET ASSETS, END OF YEAR	<u>\$ 56,769,251</u>	<u>\$ 56,007,377</u>

See accompanying notes to financial statements.

HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2020

	Program Services				
	Grants	Grants Administration	Total Program Services	Management and General	Total Expenses
Grants awarded expense	\$ 2,387,491	\$ -	\$ 2,387,491	\$ -	\$ 2,387,491
Wages and benefits	-	457,699	457,699	33,897	491,596
Advertising	-	1,215	1,215	-	1,215
Licenses and fees	-	254	254	-	254
Depreciation	-	1,032	1,032	32	1,064
Dues and memberships	-	1,322	1,322	-	1,322
Equipment maintenance	-	3,800	3,800	-	3,800
Insurance	-	2,931	2,931	154	3,085
Occupancy	-	18,749	18,749	580	19,329
Office supplies	-	1,324	1,324	41	1,365
Postage and shipping	-	247	247	-	247
Printing and publications	-	976	976	30	1,006
Professional fees	-	25,793	25,793	27,493	53,286
Travel, conferences and meetings	-	9,010	9,010	81	9,091
Provision for excise taxes	-	-	-	57,356	57,356
Other miscellaneous	-	-	-	16,618	16,618
Total	\$ 2,387,491	\$ 524,352	\$ 2,911,843	\$ 136,282	\$ 3,048,125

See accompanying notes to financial statements.

HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2019

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

See accompanying notes to financial statements.

HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

STATEMENTS OF CASH FLOWS

For the Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 761,874	\$ (2,293,576)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,064	1,452
Unrealized (gains) losses on investments, net	(863,297)	4,192,879
Realized gains on investments, net	(803,950)	(2,808,524)
Accrued income on assets limited as to use	(8,271)	(10,537)
(Increase) decrease in:		
Contribution receivable	-	335,752
Prepaid expenses	(5,614)	8,972
Accrued investment income	119	(4,250)
Federal excise tax deposit	57,356	(61,056)
Increase (decrease) in:		
Accounts payable	26,058	(6,200)
Grants and awards payable	133,575	(38,575)
Other accrued expenses	2,201	259
Federal excise tax payable	-	(1,423)
Net cash and cash equivalents (used by) operating activities	<u>(698,885)</u>	<u>(684,827)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,673)	-
Purchases of investments	(5,957,275)	(10,269,703)
Proceeds from sale of investments	6,750,594	10,973,139
Net cash and cash equivalents provided from investing activities	<u>791,646</u>	<u>703,436</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	92,761	18,609
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	910,124	891,515
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,002,885</u>	<u>\$ 910,124</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for excise taxes	<u>\$ -</u>	<u>\$ 110,000</u>

See accompanying notes to financial statements.

HEALTHCARE FOUNDATION OF NORTHERN LAKE COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended May 31, 2020 and 2019

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, 2020 and 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$753,000 and \$662,000, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets Limited as to Use

At May 31, 2020 and 2019, 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. All grants awarded are payable within one year. There were no conditional grants payable as of May 31, 2020 and 2019.

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.

Revenue Recognition

Revenues are recognized when earned. Revenues received by the Foundation consist primarily investment gains. The Foundation also receives contributions revenue at certain times.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019. Starting in the fiscal year ended May 31, 2020, the Foundation also matches employee contributions, up to 5% of the employee's salary. Total employer contributions for this plan for the years ended May 31, 2020 and 2019 totaled \$57,253 and \$38,906, 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, 2020 and 2019 was \$1,215 and \$6,840, 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, 2020 and 2019 satisfied the required distributions as computed as of May 31, 2019 and 2018, 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

The Foundation adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, as issued by the Financial Accounting Standards Board (FASB). Management believes the standard improves the usefulness and understandability of the Organization's financial reporting. The adoption of this new accounting pronouncement did not have a material impact on the financial statements.

Future Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, 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 No. 2016-02, as amended by ASU No. 2020-05, is effective for annual periods beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. ASU No. 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new leases 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 impact of this new standard including the two optional transition methods.

Subsequent Events

The Foundation has evaluated subsequent events through, November 23, 2020, the date on which the financial statements were available to be issued.

3. LIQUIDITY AND AVAILABILITY

The Foundation had \$57,806,231 as of May 31, 2020 and \$56,797,307 as of May 31, 2019 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.

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

4. 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, 2020 and 2019.

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, 2020 and 2019:

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

Recurring Measurements

Assets measured at fair value on a recurring basis as of May 31, 2020 and 2019 were as follows:

	May 31, 2020			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 57,066,065	\$ -	\$ -	\$ 57,066,065
TOTAL	\$ 57,066,065	\$ -	\$ -	\$ 57,066,065

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

4. FAIR VALUE MEASUREMENTS (Continued)

Recurring Measurements (Continued)

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

5. 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 \$664,552 and \$656,281 at May 31, 2020 and 2019, 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.

6. 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 terminated on September 30, 2020. The lease agreement called for monthly rent of \$950 plus monthly operating charges for maintenance and utilities.

A new lease for office space was entered into after year end. The new lease agreement commenced on October 1, 2020 and ends on August 31, 2021 and calls for monthly rent of \$250 per month.

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

6. OPERATING LEASES (Continued)

Total rent expense was \$11,400 and \$11,957 for the years ended May 31, 2020 and 2019, respectively.

Future minimum rental payments as of May 31, 2020 are as follows:

2021	\$ 5,800
2022	<u>1,000</u>
Total future minimum lease payments	<u><u>\$ 6,800</u></u>

7. 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. 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.

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

7. ENDOWMENT FUNDS (Continued)

Endowment Investment and Spending Policies (Continued)

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 \$281,616 and 323,971, and a deficiency of \$54,136 and 11,781 as of May 31, 2020 and 2019, respectively. 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.

Donor Restricted Endowment Funds

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

	May 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	\$ -	\$ 335,752	\$ 335,752
Accumulated investment loss	-	(54,135)	(54,135)
Total funds	<u>\$ -</u>	<u>\$ 281,617</u>	<u>\$ 281,617</u>

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

7. ENDOWMENT FUNDS (Continued)

Donor Restricted Endowment Funds (Continued)

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

	May 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
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	\$ -	\$ 323,971	\$ 323,971

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

	May 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	\$ -	\$ 335,752	\$ 335,752
Accumulated investment loss	-	(54,135)	(54,135)
Total funds	\$ -	\$ 281,617	\$ 281,617

	May 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
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	\$ -	\$ 323,971	\$ 323,971

8. CONCENTRATION 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. 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. RISKS AND UNCERTAINTIES

Beginning around March 2020, The Covid-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, center programs, box office productions and funding sources could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. No adjustments have been made to these financial statements as a result of this uncertainty.