

# **The Arthur Foundation**

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**Financial Report**  
**December 31, 2016**

# **The Arthur Foundation**

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## Independent Auditor's Report

To the Board of Directors  
The Arthur Foundation

We have audited the accompanying financial statements of The Arthur Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2016 and 2015 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arthur Foundation as of December 31, 2016 and 2015 and the changes in its unrestricted net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
The Arthur Foundation

***Emphasis of Matter***

As described in Note 6, the financial statements include investments whose fair value is estimated based on net asset value per share (or its equivalent) totaling \$25,158,525 (20 percent of unrestricted net assets) at December 31, 2016 and \$41,622,776 (45 percent of unrestricted net assets) at December 31, 2015 and that have redemption frequencies of greater than one year. Our opinion is not modified with respect to this matter.

*Plante & Moran, PLLC*

April 24, 2018

# The Arthur Foundation

## Statement of Financial Position

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Cash	\$ 771,605	\$ 29,909
Due from redemption of securities	266,555	-
Prepaid expenses	2,720	2,720
Securities - At fair value (cost - \$101,687,689 and \$60,124,255 in 2016 and 2015, respectively)	123,657,096	94,957,584
Securities - At cost	1,555,360	1,520,862
Property and equipment - Net	4,067	5,695
Total assets	<u>\$ 126,257,403</u>	<u>\$ 96,516,770</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 18,100	\$ -
Grants payable	1,570,000	3,445,000
Taxes payable	558,855	52,574
Total liabilities	2,146,955	3,497,574
<b>Net Assets - Unrestricted</b>	<u>124,110,448</u>	<u>93,019,196</u>
Total liabilities and net assets	<u>\$ 126,257,403</u>	<u>\$ 96,516,770</u>

# The Arthur Foundation

## Statement of Activities and Changes in Net Assets

	Year Ended	
	December 31, 2016	December 31, 2015
<b>Revenue, Gains, and Other Support</b>		
Realized gain on sales of investments	\$ 10,998,187	\$ 10,725,910
Change in unrealized loss on investments	(14,642,834)	(5,598,034)
Investment income	2,510,242	962,540
Total revenue	(1,134,405)	6,090,416
<b>Expenses</b>		
Grants	5,860,928	3,820,500
Salaries and employee benefits	423,158	382,194
Professional fees: accounting, audit legal and consulting	294,623	224,405
Investment management expenses	376,055	557,091
Excise and unrelated business income taxes	753,281	233,387
Other	66,298	57,701
Total expenses	7,774,343	5,275,278
<b>(Decrease) Increase in Unrestricted Net Assets</b> - Before other change in unrestricted net assets	(8,908,748)	815,138
<b>Other Change in Unrestricted Net Assets</b> - Grants returned	40,000,000	-
<b>Increase in Unrestricted Net Assets</b>	31,091,252	815,138
<b>Unrestricted Net Assets</b> - Beginning of year	93,019,196	92,204,058
<b>Unrestricted Net Assets</b> - End of year	<b>\$ 124,110,448</b>	<b>\$ 93,019,196</b>

# The Arthur Foundation

## Statement of Cash Flows

	Year Ended	
	December 31, 2016	December 31, 2015
<b>Cash Flows from Operating Activities</b>		
Increase in unrestricted net assets	\$ 31,091,252	\$ 815,138
Adjustments to reconcile increase in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	1,628	1,628
Realized gain on sales of investments	(10,998,187)	(10,725,910)
Change in unrealized loss on investments	14,642,834	5,598,034
Changes in operating assets and liabilities which provided (used) cash:		
Prepaid expenses	-	31,589
Accounts payable	18,100	-
Grants payable	(1,875,000)	(1,205,000)
Taxes payable	506,281	(33,376)
Net cash provided by (used in) operating activities	33,386,908	(5,517,897)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(54,785,626)	(34,032,388)
Proceeds from sales and maturities of investments	22,406,669	34,211,565
Due from redemptions of securities	(266,255)	4,950,912
Net cash (used in) provided by investing activities	(32,645,212)	5,130,089
<b>Net Increase (Decrease) in Cash</b>	741,696	(387,808)
<b>Cash - Beginning of year</b>	29,909	417,717
<b>Cash - End of year</b>	<b>\$ 771,605</b>	<b>\$ 29,909</b>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for taxes</b>	<b>\$ 273,394</b>	<b>\$ 257,663</b>

# The Arthur Foundation

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## Notes to Financial Statements December 31, 2016 and 2015

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

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

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

During 2017, The Foundation filed Articles of Amendment with the Illinois Secretary of State to change its name from The Arthur Foundation to Healthy Communities Foundation.

**Basis of Accounting** - The financial statements of the Foundation are prepared on the accrual basis of accounting.

**Classification of Net Assets** - The net assets of the Foundation are classified as unrestricted. Unrestricted net assets consist of amounts that are currently available for use in the Foundation's operations.

The Foundation currently has no temporarily or permanently restricted net assets.

**Contributions** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. The Foundation did not receive any contributions during the years ended December 31, 2016 and 2015.

**Investments** - Substantially all of the Foundation's investments are reported at fair value. Investment gains and losses, including net realized and change in unrealized gains and losses, are reflected in the statement of activities and changes in net assets as increases or decreases in net assets. Interest and dividend income is recorded on the accrual basis.

The Foundation records its investments in two commodity funds at cost (approximately 1 percent and 2 percent of investments as of December 31, 2016 and 2015, respectively) rather than at fair value as required by accounting principles generally accepted in the United States of America (GAAP). Management believes this is an appropriate representation of the net realizable value. The Foundation recognizes income as reported by the funds. These funds had unfunded commitments totaling approximately \$3,000,000 and \$4,000,000 at December 31, 2016 and 2015, respectively.



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

In addition, there are various investments with future lock-up periods and redemption notice periods that are stated in Note 6.

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

**Federal Income Taxes** - The Foundation is exempt from income tax under provisions of Internal Revenue Code Sections 501(a) and 501(c)(3).

**Property and Equipment** - Property and equipment are valued at cost or fair market value for donated items. The Foundation's policy is to capitalize items with useful lives of one year or more and values of \$500 or more. These assets are depreciated over their estimated useful lives using the straight-line method. Furniture and fixtures and transportation equipment are all estimated to have five-year useful lives.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including April 24, 2018, which is the date the financial statements were available to be issued.

**Reclassification** - Certain reclassifications were made to amounts in the 2015 financial statements to conform to the classifications used in 2016. There were no changes to assets, liabilities or change in net assets as a result of the reclassifications. In Note 6, disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient were grouped according to their respective investment categories.

### **Note 2 - Upcoming Accounting Pronouncement - NFP Financial Reporting Model**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Foundation is currently gathering the appropriate information to implement those disclosure changes in a timely manner.

### **Note 3 - Cash**

The Foundation maintains its cash balances in an account at First American Bank, which at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation does not believe it is exposed to any significant credit risk on cash.

### **Note 4 - Investment Policy**

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

### **Note 5 - Federal Taxes and Minimum Required Distributions**

In accordance with the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined in the Code. Federal excise tax expense for the years ended December 31, 2016 and 2015 was estimated to be \$232,887 and \$224,287, respectively. In addition, the Foundation is subject to unrelated business income tax on a portion of the income provided by certain investment partnerships. Federal unrelated business income tax expense for the years ended December 31, 2016 and 2015 was estimated to be \$520,394 and \$9,100, respectively.

The Code requires that certain minimum distributions be made in accordance with a specific formula. The Foundation has met the minimum distribution requirements for the years ended December 31, 2016 and 2015.

### Note 6 - Fair Value Measurements

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

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Foundation to determine those fair values.

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

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

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

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

As of January 1, 2016, the Foundation implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investments. Under the new guidance, investments measured at fair value using NAV per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy below.

### Note 6 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Investments:				
Money market funds	\$ 1,367,511	\$ -	\$ -	\$ 1,367,511
Mutual funds - Equity focused	41,312,663	-	-	41,312,663
Mutual funds - Fixed income focused	30,960,478	-	-	30,960,478
Investments at NAV:				
Hedge Funds - Equity focused	-	-	-	15,934,201
Hedge funds - Fixed-income focused - Aurelius	-	-	-	8,115,552
Hedge funds - Fixed-income focused - Rimrock High Income Fund	-	-	-	6,870,375
Hedge funds - Fixed-income focused - Other	-	-	-	246,450
Hedge funds - Multi strategy	-	-	-	82,866
Commodity funds	-	-	-	916,595
Real estate partnerships	-	-	-	4,827,265
Private equity funds	-	-	-	13,023,140
Total investments	<u>\$ 73,640,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,657,096</u>

### Note 6 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Investments:				
Money market funds	\$ 8,117,577	\$ -	\$ -	\$ 8,117,577
Mutual funds - Equity focused	11,745,506	-	-	11,745,506
Mutual funds - Fixed income focused	4,850,124	-	-	4,850,124
Investments at NAV:				
Hedge funds - Equity focused	-	-	-	20,290,667
Hedge funds - Fixed-income focused - Aurelius	-	-	-	7,305,045
Hedge funds - Fixed-income focused - Rimrock High Income Fund	-	-	-	6,553,851
Hedge funds - Fixed-income focused - Other	-	-	-	895,420
Hedge funds - Multi-strategy	-	-	-	94,185
Commodity funds	-	-	-	973,875
Real estate partnerships	-	-	-	8,523,890
Private equity funds	-	-	-	25,607,444
Total investments	<u>\$ 24,713,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,957,584</u>

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

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

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

# The Arthur Foundation

## Notes to Financial Statements December 31, 2016 and 2015

### Note 6 - Fair Value Measurements (Continued)

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

#### Investments Held at December 31, 2016

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Equity focused (a)	\$ 15,934,201	\$ 1,117,137	Monthly, quarterly, triannually, or at general partner's discretion	30-90 days; n/a
Fixed-income focused (b)	15,232,377	3,000,000	Monthly, quarterly, semiannually, annually, or upon dissolution of fund	30-65 days; n/a
Multi-strategy (c)	82,866	-	Daily, quarterly, or annually	2-60 days
Commodity funds (d)	916,595	44,220	Upon dissolution of fund	n/a
Real estate partnerships (e)	4,827,265	1,920,099	Annually, upon dissolution of fund	90 days; n/a
Private equity funds (f)	<u>13,023,140</u>	<u>1,295,342</u>	Upon dissolution of fund	n/a
Total	<u>\$ 50,016,444</u>	<u>\$ 7,376,798</u>		

#### Investments Held at December 31, 2015

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Equity focused (a)	\$ 20,290,667	\$ 1,512,334	Monthly, quarterly, or upon dissolution of fund	30-90 days; n/a
Fixed-income focused (b)	14,754,316	3,000,000	Monthly, quarterly, semiannually, annually, or upon dissolution of fund	30-65 days; n/a
Multi-strategy (c)	94,185	-	Daily, quarterly, or annually	2-60 days
Commodity funds (d)	973,875	176,228	Upon dissolution of fund	n/a
Real estate partnerships (e)	8,523,890	778,841	Annually, upon dissolution of fund	90 days
Private equity funds (f)	<u>25,607,444</u>	<u>1,646,568</u>	Upon dissolution of fund	n/a
Total	<u>\$ 70,244,377</u>	<u>\$ 7,113,971</u>		

- (a) This category includes hedge funds that invest in a variety of equity-focused strategies, including securities of domestic and foreign publicly traded companies. The fair values of the underlying investments in this category have been estimated using their respective net asset values.

### Note 6 - Fair Value Measurements (Continued)

- (b) This category includes hedge funds that invest in a variety of fixed-income focused strategies, including distressed and below-investment-grade debt securities, mortgage-backed securities, asset-backed securities, corporate bonds, unconstrained or opportunistic bonds, collateralized debt obligations, and commodities. The fair values of the investments in this category have been estimated using their respective net asset values. For 2016 and 2015, investments totaling \$14,985,928 and \$13,858,896, respectively, are subject to a 10 percent holdback upon redemption, which is paid within 30 days after the completion of the audited financial statements for the year in which the redemption was made.
- (c) This category includes hedge funds that invest using a multiple-strategy approach, including short-term deposits, publicly traded equity and debt securities, asset-backed and mortgage-backed securities, derivative instruments, convertible bonds and options, emerging markets, arbitrage securities, equity restructurings, and residential and commercial real estate assets. The fair values of the investments in this category have been estimated using their respective net asset values. For 2016 and 2015, investments totaling \$4,523,045 and \$4,141,538, respectively, are subject to a 10 percent holdback upon redemption, which is paid after the completion of the audited financial statements for the year in which the redemption was made.
- (d) This category includes funds that are invested in natural commodities, including coal mines and methane. The fair values of the investments in this category have been estimated using their respective net asset values. These funds are expected to terminate within two to seven years.
- (e) This category includes funds that invest in a variety of real estate ventures, including limited partnerships, LLCs, and private real estate investment trusts. The types of real estate include offices, apartments, industrial, and other commercial real estate properties primarily located in the United States. The fair values of the investments in this category have been estimated using their respective net asset values. One investment with a value of \$1,621,475 and \$2,317,758 for 2016 and 2015, respectively, will terminate upon the later to occur of (i) September 30, 2014 or (ii) such time as is reasonably necessary to wind down the affairs of the partnership after the date on which all of the partnership's investments in the underlying funds have been liquidated.
- (f) This category includes funds that invest in a variety of private equity strategies, including health care, media, technology, and venture capital. The fair values of the investments in this category have been estimated using their respective net asset values. These funds have lock-up periods ranging from five to seven years or one year after all of the investments have been disposed.

Investments whose fair values are estimated based on NAV per share (or its equivalent) above totaling \$25,158,525 and \$41,622,776 at December 31, 2016 and December 31, 2015, respectively, have redemption restrictions of greater than one year.

### Note 7 - Grants

The Foundation has conditionally approved future commitments in the amount of \$0 and \$1,895,000 for the years ended December 31, 2016 and 2015, respectively. These amounts have not been recorded as liabilities because all grants are formally awarded on a year-by-year basis only. In addition, the Foundation reserves the right to cancel a grant at any time if it determines that the organization receiving the grant is not administering the project and grant funds in accordance with the proposal approved by the Foundation's board.

During 2016, the Foundation contacted a grantee and requested the return of certain grants awarded in previous years totaling \$40,000,000. The amounts were returned to the Foundation on June 27, 2016.

# The Arthur Foundation

## Notes to Financial Statements December 31, 2016 and 2015

### Note 8 - Lease Commitments

The Foundation has entered into a lease for its facilities. The amount of rent expense for the years ended December 31, 2016 and 2015 was \$22,900 and \$22,200, respectively. The Foundation amended its lease agreement on November 25, 2014 to renew the lease annually. As of December 31, 2016, the Foundation's total future minimum lease payment was \$23,400 for the year ending December 31, 2017.

### Note 9 - Defined Contribution Plans

The Foundation sponsors a defined contribution retirement (DCR) plan, established on January 1, 2000; a tax-deferred annuity (TDA) plan, established on January 1, 2001; and a tax-deferred annuity (TDA) matching plan, established on January 1, 2006, for certain key employees who are eligible based on age and length of service. All three plans comply with the requirements of Internal Revenue Code Section 403(b). Each plan has only one participant currently. The DCR plan provides for contributions in the amount of 9 percent of compensation. The TDA plan provides for pretax employee contributions up to the annual legal limit, with the TDA matching plan providing a 50 percent match by the Foundation on those employees' contributions. All contributions made by the Foundation are currently paid. Contributions for the years ended December 31, 2016 and 2015 were \$8,000 and \$10,500, respectively.

### Note 10 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2016</u>	<u>2015</u>
Computer equipment and software	\$ 22,061	\$ 22,061
Furniture and fixtures	<u>44,237</u>	<u>44,237</u>
Total cost	66,298	66,298
Less accumulated depreciation	<u>(62,231)</u>	<u>(60,603)</u>
Net carrying amount	<u>\$ 4,067</u>	<u>\$ 5,695</u>

Depreciation expense was \$1,628 for both 2016 and 2015.



# The Arthur Foundation

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## Notes to Financial Statements December 31, 2016 and 2015

### Note 11 - Functional Expenses

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

	<u>2016</u>	<u>2015</u>
Program expenses	\$ 6,487,340	\$ 4,350,405
Administration	<u>1,287,003</u>	<u>924,873</u>
Total	<u>\$ 7,774,343</u>	<u>\$ 5,275,278</u>

### Note 12 - Attorney General's Office Actions

In May 2014, the Illinois Attorney General's Office raised concerns with respect to certain grants awarded by the Foundation in prior years. In June 2016, the Attorney General and the Foundation reached an agreement that resolved all concerns. As part of the agreement, the Foundation instituted director term limits and refined the geographic and programmatic focus areas for its future grants.