
Michael Reese Research and Education Foundation

Financial Report
August 31, 2021

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Independent Auditor's Report

To the Board of Directors
Michael Reese Research and Education Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Michael Reese Research and Education Foundation (the "Foundation"), which comprise the statement of financial position as of August 31, 2021 and the related statements of activities and changes in net assets, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Michael Reese Research and Education Foundation as of August 31, 2021 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Foundation adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

To the Board of Directors
Michael Reese Research and Education Foundation

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2022 on our consideration of Michael Reese Research and Education Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michael Reese Research and Education Foundation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

February 14, 2022

Michael Reese Research and Education Foundation

Statement of Financial Position

August 31, 2021

Assets

Assets

Cash and cash equivalents	\$	1,927,991
Accounts receivable - Net of allowance for doubtful accounts of \$2,669		1,336,024
Investments (Note 3)		22,548,338
Inventory		88,793
		<u>88,793</u>
Total assets	\$	<u><u>25,901,146</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$	1,780,370
Accrued expenses		59,260
Amounts held on behalf of others		3,856
Grants payable (Note 4)		1,895,000
		<u>1,895,000</u>
Total liabilities		3,738,486

Net Assets

Without donor restrictions		21,487,154
With donor restrictions (Note 5)		675,506
		<u>675,506</u>
Total net assets		<u>22,162,660</u>
Total liabilities and net assets	\$	<u><u>25,901,146</u></u>

Michael Reese Research and Education Foundation

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support			
Foundation contributions	\$ 912	\$ 50,000	\$ 50,912
Government grants	1,528,368	-	1,528,368
Drug purchasing program	5,492,895	-	5,492,895
Net investment (loss) income	(101,435)	792	(100,643)
Net realized and unrealized gains on investments	5,609,413	81,262	5,690,675
Net assets released from restrictions	82,111	(82,111)	-
Total revenue, gains, and other support	12,612,264	49,943	12,662,207
Expenses			
Program services	7,877,671	-	7,877,671
Management and general	407,184	-	407,184
Fundraising	6,000	-	6,000
Total expenses	8,290,855	-	8,290,855
Increase in Net Assets	4,321,409	49,943	4,371,352
Net Assets - Beginning of year	17,165,745	625,563	17,791,308
Net Assets - End of year	\$ 21,487,154	\$ 675,506	\$ 22,162,660

Michael Reese Research and Education Foundation

Statement of Functional Expenses

Year Ended August 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 216,373	\$ 250,772	\$ -	\$ 467,145
Payroll taxes	15,846	18,365	-	34,211
Employee benefits	29,127	33,757	-	62,884
Contractual services	1,008,415	-	-	1,008,415
Professional and consultant fees	348,384	54,776	6,000	409,160
Grants	2,031,700	-	-	2,031,700
Occupancy	66,464	25,000	-	91,464
Supplies	39,082	2,098	-	41,180
Prescription drugs	3,981,665	-	-	3,981,665
Pathology and radiology fees	85,988	-	-	85,988
Equipment and maintenance	186	3,183	-	3,369
Conferences, meetings, and travel	7,673	-	-	7,673
Insurance	38,006	8,983	-	46,989
Telecommunication	2,057	10,250	-	12,307
Miscellaneous	6,705	-	-	6,705
Total functional expenses	<u>\$ 7,877,671</u>	<u>\$ 407,184</u>	<u>\$ 6,000</u>	<u>\$ 8,290,855</u>

Michael Reese Research and Education Foundation

Statement of Cash Flows

Year Ended August 31, 2021

Cash Flows from Operating Activities

Increase in net assets	\$ 4,371,352
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:	
Net realized and unrealized gains on investment	(5,690,675)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:	
Accounts receivable	(65,219)
Inventory	104
Contributions receivable	25,000
Accounts payable	622,550
Accrued expenses and other	4,971
Grant payable	1,295,000
Net cash and cash equivalents provided by operating activities	563,083

Cash Flows from Investing Activities

Purchases of investments	(791,726)
Proceeds from sales of investments	893,115
Net cash and cash equivalents provided by investing activities	101,389

Net Increase in Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of year

Cash and Cash Equivalents - End of year

664,472

1,263,519

\$ 1,927,991

August 31, 2021

Note 1 - Nature of Business

Michael Reese Research and Education Foundation (the "Foundation") is incorporated as a not-for-profit organization for the purpose of conducting medical research, education, and community service for various areas of medicine, including, but not limited to, oncology research, cardiovascular research, and health care delivery. The Foundation was previously known as The Research and Education Foundation of the Michael Reese Medical Staff.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Principle

As of September 1, 2020, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the current revenue recognition requirements in Topic 605. The ASU is based on the principal that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Foundation adopted the ASU using the modified retrospective method. The adoption of the ASU did not result in any restatement to net assets or changes in net assets.

Classification of Net Assets

Net assets of the Foundation are classified as net assets with donor restrictions or net assets without donor restrictions depending on the presence and characteristics of donor-imposed restrictions limiting the Foundation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in net assets with donor restrictions. Net assets with donor restrictions also result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Cash and Cash Equivalents

Cash and money market accounts with original maturities of three months or less are reflected as cash and cash equivalents. The Foundation's cash balances may at times exceed federally insured limits. The Foundation believes it is not exposed to any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Accounts receivable are presented net of an allowance for uncollectible accounts. The allowance for doubtful accounts is established based on historical experience and analysis of specific accounts. Uncollectible accounts are written off in the year they are deemed to be worthless. Recoveries of any written amounts are recorded when received.

Investments and Related Income, Gains, and Losses

Investments are presented in the financial statements at fair value. Interest and dividend income is recorded on the accrual basis.

August 31, 2021

Note 2 - Significant Accounting Policies (Continued)

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

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

Inventory

Inventory consists of drugs used in the drug purchasing program. Inventory is carried at the lower of cost or net realizable value by use of the first-in, first-out (FIFO) method of valuation.

Amounts Held on Behalf of Others

The Foundation records the funds received on behalf of others as a liability related to amounts held on behalf of others.

Grants and Grants Payable

Grants are recognized as an expense and a liability at the time of formal approval by the board of directors. Conditional grants, if any, are expensed when such conditions are substantially met.

Revenue Recognition for Contracts with Customers

The Foundation's main revenue stream under contracts with customers is from the drug purchasing program. The Foundation participates in the 340B Drug Pricing Program (340B Program), enabling the Foundation to receive discounted prices from drug manufacturers by entering into certain contracts with unrelated pharmacies.

For the drug purchasing program sales, the Foundation has one performance obligation, which is to provide the drug to the customers related to a point-of-sale transaction. The revenue is recognized at a point in time when the sale occurs. There are no payment installment plans.

The transaction price is calculated as the amount of consideration to which the Foundation expects to be entitled based on fixed prices. The Foundation records a contract liability for any payment it receives prior to completion of performance obligations on the statement of financial position. There were no contract assets or contract liabilities from the revenue stream as of August 31, 2021. The beginning and closing balance of accounts receivable for the year ended August 31, 2021 related to the drug purchasing program was \$823,693 and \$921,255, respectively.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Note 2 - Significant Accounting Policies (Continued)

Conditional promises are recorded when donor stipulations are substantially met. Contributions are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. This includes donor-restricted contributions whose restrictions are met in the year in which the gift is received. Endowment net assets have been restricted by donors to be maintained in perpetuity.

Contributions from government grants and contract agreements are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as contribution revenue when the Foundation has incurred expenditures in compliance with specific contract or grant provisions. As of August 31, 2021, there was approximately \$779,000 of conditional contributions available to be earned, as the conditions have not been met.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible. There were no contributions receivable at August 31, 2021.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of functional expenses. Costs are charged to program and support services on an actual basis when available. Additionally, the following indirect costs have been allocated between program and support services based on estimates determined by management:

- Salaries and benefits - By estimates of time and effort spent within each department

Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

Use of Estimates

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

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including February 14, 2022, which is the date the financial statements were available to be issued.

Note 3 - Fair Value Measurements

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

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

Note 3 - Fair Value Measurements (Continued)

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

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at August 31, 2021 and the valuation techniques used by the Foundation to determine those fair values:

Assets Measured at Fair Value on a Recurring Basis at August 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at August 31, 2021
Investments:				
Equity securities	\$ 22,160,668	\$ -	\$ -	\$ 22,160,668
Money market fund	387,670	-	-	387,670
Total assets	<u>\$ 22,548,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,548,338</u>

Note 4 - Grants Payable

Grants payable are expected to be paid during the fiscal years ending August 31 as follows:

2022	\$ 600,000
2023	385,000
2024	385,000
2025	325,000
2026	200,000
Total	<u>\$ 1,895,000</u>

Note 5 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of August 31, 2021 are available for the following purposes:

Subject to expenditures for a specified purpose:	
Women's health	\$ 68,903
Cardiovascular research	284,603
Endowment investments - Held in perpetuity	<u>322,000</u>
Total	<u>\$ 675,506</u>

Note 6 - Donor-restricted Endowments

The Foundation's endowment consists of two individual donor-restricted funds. As required by accounting principles generally accepted in the United States of America associated with endowment funds, including funds designated by the board to function as endowments, these funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Foundation had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary.

As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, 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 purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund
as of August 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amount required to be maintained in perpetuity by donor	\$ -	\$ 322,000	\$ 322,000
Accumulated investment gains and income	-	235,856	235,856
Total funds	<u>\$ -</u>	<u>\$ 557,856</u>	<u>\$ 557,856</u>

Note 6 - Donor-restricted Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended August 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ -	\$ 475,802	\$ 475,802
Investment return:			
Interest and dividends	-	792	792
Realized and change in unrealized gains	-	81,262	81,262
Total investment return	-	82,054	82,054
Endowment net assets - End of year	\$ -	\$ 557,856	\$ 557,856

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of August 31, 2021.

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is designed to preserve the principal amount.

Strategies Employed for Achieving Objectives

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 (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

As investment appreciation and income are restricted by the donors for cardiovascular research, funds will be released as relevant expenditures are incurred.

Note 7 - Employee Benefit Plans

The Foundation sponsors a 403(b) plan covering substantially all employees. The Foundation matches one-half of employees' contributions up to 3 percent of compensation. Contribution expense totaled \$11,875 for the year ended August 31, 2021.

Note 8 - Lease Commitments

Operating Leases

The Foundation occupies its office at 1339 S. Wood Street, Suite G, Chicago, Illinois under a month-to-month lease agreement and leases space for its clinic location at 2600 South Michigan Avenue, Chicago, Illinois, also under a month-to-month lease.

Rent expense for both locations was \$91,464 for the year ended August 31, 2021.

August 31, 2021

Note 9 - Liquidity and Availability of Resources

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. The following represents the Foundation's financial assets available to meet general operating needs for the next upcoming fiscal year as of August 31, 2021:

Cash and cash equivalents	\$ 1,927,991
Accounts receivable - Net of allowance for doubtful accounts of \$2,669	1,336,024
Investments (Note 3)	<u>22,548,338</u>
Financial assets - At year end	25,812,353
Less those unavailable for general expenditures within one year due to:	
Donor-imposed restrictions (Notes 5 and 6)	675,506
Amounts committed toward grants payable	<u>1,295,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 23,841,847</u></u>