MUELLER & CO., LLP
Certified Public Accountants – Business & Financial Advisors

ASSURANCE

HEALTHY COMMUNITIES FOUNDATION

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

MUELLER

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Healthy Communities Foundation, Illinois
Riverside, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Healthy Communities Foundation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets 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 of 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.

Auditor's Responsibility, Continued

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 Healthy Communities Foundation as of December 31, 2017, 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 Matter

The financial statements of Healthy Communities Foundation (formerly The Arthur Foundation), as of and for the year ended December 31, 2016, were audited by other auditors whose report, dated April 24, 2018, expressed an unmodified opinion on those statements.

Mueller & Co., LLP

Chicago, Illinois
December 11, 2018

HEALTHY COMMUNITIES FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

ASSETS

		2017	2016
Cash	$	119,913	771,605
Due from redemption of securities		3,863,543	266,555
Prepaid expenses		1,486,524	2,720
Investments - At fair value (cost - $97,095,796 and $101,687,689 in 2017 and 2016, respectively)		127,030,385	123,657,096
Investments - At cost		1,641,876	1,555,360
Property and equipment - Net		10,139	4,067
	$	134,152,380	126,257,403

LIABILITIES AND NET ASSETS

		2017	2016
Liabilities:			
Accounts payable	$	87,661	18,100
Grants payable		360,000	1,570,000
Taxes payable		-	558,855
		447,661	2,146,955
Net assets:			
Unrestricted		133,704,719	124,110,448
	$	134,152,380	126,257,403

The accompanying notes are an integral part of the financial statements.

HEALTHY COMMUNITIES FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Revenue, gains and other support:		
Realized gain on sales of investments	$ 4,674,371	10,998,187
Change in unrealized gain (loss) on investments	10,557,139	(14,642,834)
Investment income	2,567,088	2,510,242
Total revenue	17,798,598	(1,134,405)
Expenses:		
Grants	6,502,080	5,860,928
Salaries and employee benefits	189,522	423,158
Professional fees: accounting, audit, legal and consulting	356,425	294,623
Investment management expenses	513,671	376,055
Excise and unrelated business income taxes	534,808	753,281
Other	107,821	66,298
Total expenses	8,204,327	7,774,343
Increase (decrease) in unrestricted net assets -		
Before other change in unrestricted net assets	9,594,271	(8,908,748)
Other change in unrestricted net assets -		
Grants returned	-	40,000,000
Increase in unrestricted net assets	9,594,271	31,091,252
Unrestricted net assets - Beginning of year	124,110,448	93,019,196
Unrestricted net assets - End of year	$ 133,704,719	124,110,448

The accompanying notes are an integral part of the financial statements.

HEALTHY COMMUNITIES FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017	2016
Cash provided by (applied to) operating activities:			
Change in net assets	$	9,594,271	31,091,252
Adjustments to reconcile change in net assets to net cash provided by (applied to) operating activities:			
Depreciation expense		2,483	1,628
Realized gain on sales of investments		(4,674,371)	(10,998,187)
Change in unrealized (gain) loss on investments		(10,557,139)	14,642,834
Change in:			
Prepaid expenses		(1,483,804)	-
Accounts payable		69,561	18,100
Grants payable		(1,210,000)	(1,875,000)
Taxes payable		(558,855)	506,281
		(8,817,854)	33,386,908
Cash provided by (applied to) investing activities:			
Purchases of property and equipment		(8,555)	-
Purchases of investments		(15,479,562)	(54,785,626)
Proceeds from sales of investments		27,251,267	22,406,669
Due from redemptions of securities		(3,596,988)	(266,255)
		8,166,162	(32,645,212)
Net increase (decrease) in cash		(651,692)	741,696
Cash, beginning of year		771,605	29,909
Cash, end of year	$	119,913	771,605
Other cash flow information -			
Income taxes paid	$	2,550,061	273,394

The accompanying notes are an integral part of the financial statements.

NOTE 1 - NATURE OF OPERATIONS

Healthy Communities Foundation (Foundation), formerly The Arthur Foundation and preceding that, the 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 $I00,000,000 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 (IRC) 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Investments

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.

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 of investments as of December 31, 2017 and 2016) rather than at fair value as required by accounting principles generally accepted in the United States of America. 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 at December 31, 2017 and 2016.

In addition, there are various investments with future lock-up periods and redemption notice periods that are stated in Note 3.

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.

At December 31, 2017 and 2016, the Foundation had redemptions receivable of $3,863,543 and $266,555, respectively. These redemptions were executed prior to year-end and represent the return of investor principal to the Foundation.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 computer equipment and software are all estimated to have five-year useful lives.

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation did not receive any contributions during the years ended December 31, 2017 and 2016.

The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with 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 temporary or permanently restricted net assets.

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.

Federal Income Taxes

The Foundation is exempt from income tax under provisions of IRC Sections 501(a) and 501(c)(3).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Accounting Estimates

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

Concentration of Credit Risk

The Foundation maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Foundation believes it is not exposed to significant credit risk on these accounts.

New Accounting Standard – Presentation of Financial Statements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). ASU No. 2016-14 is intended to simplify how organizations classify their net assets, and also improve the information presented in financial statements and notes about liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods with fiscal years beginning after December 15, 2018. The Foundation is currently evaluating the methods of adoption allowed by ASU No. 2016-14 and the effect that ASU No. 2016-14 is expected to have on its financial position, results of operations, cash flows and related disclosures.

Going Concern Evaluation

In accordance with ASU No. 2014-15 management performed an evaluation to determine if adverse conditions or events, considered in the aggregate, raise substantial doubt about the Foundation’s ability to continue as a going concern for the one-year period from the date the financial statements are available to be issued. Management’s assessment did not identify any conditions or events raising substantial doubt about the Foundation’s ability to continue as a going concern for the period from December 11, 2018 to December 11, 2019.

Subsequent Events

Subsequent events have been evaluated through December 11, 2018, the date that the financial statements were available for issue.

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.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2017 and 2016 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.

Investment 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 investment held is estimated based on the net asset value (NAV) per share (or its equivalent) of the investment company.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 3 - FAIR VALUE MEASUREMENTS, CONTINUED

Assets at Fair Value as of December 31, 2017

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2017
Investments:				
Money market funds	$ 603,562	-	-	603,562
Mutual funds – Equity focused	47,321,016	-	-	47,321,016
Mutual funds – Fixed income focused	30,759,267	-	-	30,759,267
Investments at NAV[(a)]:				
Hedge funds – Equity focused	-	-	-	19,655,177
Hedge funds- Fixed-income focused – Aurelius	-	-	-	8,135,146
Hedge funds- Fixed-income focused – Rimrock High Income Fund	-	-	-	7,238,761
Hedge funds – Fixed-income focused – other	-	-	-	154,373
Hedge funds – Multi-strategy	-	-	-	39,289
Commodity funds	-	-	-	1,054,801
Real estate partnerships	-	-	-	2,916,640
Private equity funds	-	-	-	9,152,353
Total investments	$ 78,683,845	-	-	127,030,385

(a) In accordance with subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

NOTE 3 - FAIR VALUE MEASUREMENTS, CONTINUED

Assets at Fair Value as of 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 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[(a)]:				
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	$ 73,640,652	-	-	123,657,096

(a) In accordance with subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

For the years ended December 31, 2017 and 2016, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

NOTE 3 - 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, 2017

	Fair Value	Unfunded Commitments	Redemption Frequency, if eligible	Redemption Notice Period
Equity focused (a)	$ 19,655,177	860,240	Monthly, quarterly, triannually, or at general partner's discretion	30-90 days; n/a
Fixed-income focused (b)	15,528,280	3,000,000	Monthly, quarterly, semiannually, annually or upon dissolution of fund	30-65 days; n/a
Multi-strategy (c)	39,289	-	Daily, quarterly or annually	2-60 days
Commodity funds (d)	1,054,801	44,220	Upon dissolution of fund	n/a
Real estate partnerships (e)	2,916,640	270,677	Annually, upon dissolution of fund	90 days; n/a
Private equity funds (f)	9,152,353	1,258,351	Upon dissolution of fund	n/a
Total	$ 48,346,540	5,433,488		

NOTE 3 - FAIR VALUE MEASUREMENTS, CONTINUED

Investments Held at December 31, 2016

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redetmption Notice Period
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)	13,023,140	1,295,342	Upon dissolution of fund	n/a
Total	$ 50,016,444	7,376,798		

(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.

(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 2017 and 2016, investments totaling $15,373,907 and $14,985,928, 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.

NOTE 3 - FAIR VALUE MEASUREMENTS, CONTINUED

(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 2017 and 2016, investments totaling $39,289 and $82,866, 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 $1,331,026 and $1,621,475 for 2017 and 2016, respectively, will terminate upon such time as reasonably necessary to wind down the affairs of the partnership after the date of 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.

For investments whose fair values are estimated based on NAV per share (or its equivalent) above there were none with redemption restrictions of greater than one year for the year ending December 31, 2017 and $25,158,525 for the year ending December 31, 2016.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 consisted of the following:

		2017	2016
Computer equipment and software	$	29,667	22,061
Furniture and fixtures		45,186	44,237
		74,853	66,298
Less accumulated depreciation		(64,714)	(62,231)
	$	10,139	4,067

Depreciation expense included in program and support services was $2,483 and $1,628 for the years ended December 31, 2017 and 2016, respectively.

NOTE 5 - FEDERAL TAXES AND MINIMUM REQUIRED DISTRIBUTIONS

In accordance with the applicable provisions of the IRC 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, 2017 and 2016 was estimated to be $111,918 and $232,887, 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, 2017 and 2016 was estimated to be $400,350 and $520,394, respectively.

For the year ended December 31, 2017 the Foundation had $1,479,547 in prepaid income taxes included in prepaid expenses on the statements of financial position. There were no prepayments for the year ended December 31, 2016.

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, 2017 and 2016.

NOTE 6 - GRANTS

The Foundation had no conditionally approved future commitments for the years ended December 31, 2017 and 2016. 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.

NOTE 7 - LEASE COMMITMENTS

The Foundation has entered into a lease for its facilities. The amount of rent expense for the years ended December 31, 2017 and 2016 was $21,450 and $22,900, respectively. The Foundation amended its lease agreement on November 25, 2014 to renew the lease annually. As of December 31, 2017, the Foundation's total future minimum lease payment was $24,000 for the year ending December 31, 2018.

NOTE 8 - 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 IRC 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. There were no contributions for the year ended December 31, 2017 and there were $8,000 in contributions for the year ended December 31, 2016.

NOTE 9 - FUNCTIONAL EXPENSES

The following represents the Foundation's functional expenses as of December 31, 2017 and 2016:

		2017	2016
Program expenses	$	7,067,462	6,487,340
Administration		1,136,865	1,287,003
	$	8,204,327	7,774,343

NOTE 10 - RECLASSIFICATION

Certain amounts in the 2016 financial statements have been reclassified to conform with the year 2017 presentation.

NOTE 11 - 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.