RANDLE & ASSOCIATES, LLC
Certified Public Accountants

DEACONESS FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

www.randlecpa.com

Deaconess Foundation

CONTENTS

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70 Black Jack Ct.
Florissant, MO 63033

Independent Auditors' Report

Board of Trustees
Deaconess Foundation
St. Louis, Missouri

We have audited the accompanying financial statements of Deaconess Foundation which comprise the statements of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses, 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.

Auditors' 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 auditors' 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 Deaconess Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Deaconess Foundation as of December 31, 2017, were audited by other auditors whose report dated June 12, 2018, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements on pages 23 through 25 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Rawlls & associates, LLC, CPAs

Florissant, Missouri
June 4, 2019

CONSOLIDATED FINANCIAL STATEMENTS

Deaconess Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 1,347,490	$ 486,079
Restricted cash and cash equivalents	-	3,895,546
Accounts receivable	4,093	24,863
Notes receivable	802,006	251,917
New Market Tax Credit notes receivable	3,964,200	3,964,200
Investments	44,612,981	51,687,743
Other investment	900,000	900,000
Beneficial interest in perpetual trusts	903,254	1,016,363
Managed physician retirement funds	537,590	545,607
Unitrust receivables	270,156	299,769
Land	454,154	454,154
Property and equipment, net	7,860,866	7,006,655
Other assets	125,235	153,103
Total Assets	$ 61,782,025	$ 70,685,999

LIABILITIES AND NET ASSETS

	December 31, 2018	December 31, 2017
LIABILITIES		
Accounts payable and accrued expenses	$ 101,909	$ 2,641,573
Grants payable	157,374	62,374
New Market Tax Credit notes payable	5,581,550	5,543,012
Note payable	6,675,000	6,675,000
Managed physician retirement liability	537,590	545,607
Total Liabilities	13,053,423	15,467,566
NET ASSETS		
Without donor restrictions	35,000,927	40,294,529
With donor restrictions	13,727,675	14,923,904
Total Net Assets	48,728,602	55,218,433
Total Liabilities and Net Assets	$ 61,782,025	$ 70,685,999

See accompanying notes to financial statements

Deconess Foundation
CONSOLIDATING STATEMENT OF ACTIVITIES

	Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND GAINS			
Donations	$ 77,468	$ 84,653	$ 162,121
Facility shared services	48,180	-	48,180
Investment income, net of expenses	(2,330,919)	(871,487)	(3,202,406)
Change in value of beneficial interest in trust	-	(113,109)	(113,109)
Other program fees	37,435	-	37,435
In kind revenue	-	-	-
Net assets released from restrictions	296,286	(296,286)	-
Total Support, Revenues, and Gains	(1,871,550)	(1,196,229)	(3,067,779)
EXPENSES			
Program Services:			
Major grant programs	1,219,179	-	1,219,179
Nursing scholarship program	200,000	-	200,000
Facility operations and management	600,045	-	600,045
Grant administration expenses	319,079	-	319,079
Total Program Services	2,338,303	-	2,338,303
Supporting Services:			
General and administrative expenses	1,083,749	-	1,083,749
Total Supporting Services	1,083,749	-	1,083,749
Total Expenses	3,422,052	-	3,422,052
CHANGE IN NET ASSETS	(5,293,602)	(1,196,229)	(6,489,831)
NET ASSETS, Beginning of year	40,294,529	14,923,904	55,218,433
NET ASSETS, End of year	$ 35,000,927	$ 13,727,675	$ 48,728,602

See accompanying notes to financial statements.

Year Ended December 31, 2017		
Without Donor Restrictions	With Donor Restrictions	Total
$ 47,398	$ 60,000	$ 107,398
-	-	-
5,494,197	1,852,633	7,346,830
-	96,321	96,321
7,266	-	7,266
333	-	333
911,269	(911,269)	-
6,460,463	1,097,685	7,558,148
1,672,664	-	1,672,664
113,400	-	113,400
-	-	-
518,620	-	518,620
2,304,684	-	2,304,684
752,602	-	752,602
752,602	-	752,602
3,057,286	-	3,057,286
3,403,177	1,097,685	4,500,862
36,891,352	13,826,219	50,717,571
$ 40,294,529	$ 14,923,904	$ 55,218,433

Deaconess Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	($ 6,489,831)	$ 4,500,862
Adjustments to reconcile change in net assets to net change in cash and cash equivalents from operating activities:		
Depreciation	301,150	8,529
Change in value of beneficial interest in trusts	113,109	(96,321)
Net realized and unrealized gains on investments	4,843,323	(5,113,593)
(Increase) decrease in assets:		
Accounts receivable	20,770	(24,863)
Other assets	27,868	17,871
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,539,665)	2,403,121
Grants payable	95,000	(71,512)
Net Change in Cash and Cash Equivalents from Operating Activities	(3,628,276)	1,624,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(18,129,035)	(18,245,293)
Proceeds from sales of investments	20,360,474	18,960,249
Repayment (Issuance) of notes receivable	(550,089)	300,000
Issuance of New Market Tax Credit notes receivable	-	(3,964,200)
Change in unitrust receivables	29,613	(9,870)
Purchases of property and equipment	(1,155,360)	(6,667,283)
Net Change in Cash and Cash Equivalents from Investing Activities	555,603	(9,626,397)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on New Market Tax Credit notes payable	-	5,543,012
Amortization of debt issuance costs	38,538	-
Borrowings on other note payable	-	6,675,000
Net Change in Cash and Cash Equivalents from Financing Activities	38,538	12,218,012
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,034,135)	4,215,709
CASH AND CASH EQUIVALENTS, Beginning of year	4,381,625	165,916
CASH AND CASH EQUIVALENTS, End of year	$ 1,347,490	$ 4,381,625
CASH AND CASH EQUIVALENTS	$ 1,347,490	$ 486,079
RESTRICTED CASH AND CASH EQUIVALENTS	-	3,895,546
	$ 1,347,490	$ 4,381,625
SUPPLEMENTAL CASH FLOW INFORMATION		
Amounts paid for:		
Interest	$ 322,525	$ 107,685

See accompanying notes to financial statements

Deaconess Foundation
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services		
	Major Grant Programs	Nursing Scholarship Program	Facility Operations and Management
EXPENSES			
Grant Awards:			
Anchor Institutions Grants	$ 268,703	$ -	$ -
Responsive Grants	447,000	-	-
Ecosystem Leadership Grants	74,632	-	-
Church Related Grants	69,321	-	-
Policy Campaigns/Collaberative Grants	15,000	-	-
Community Engagement	15,787	-	-
Nursing Scholarship Program	-	200,000	-
Miscellaneous Grants	2,250	-	-
Non-Grant Support	53,895	-	-
Policy Development and Advocacy	29,338	-	-
Evaluation	50,010	-	-
Philanthropic Infrastructure Support	53,756	-	-
Total Grant Awards	1,079,692	200,000	-
Personnel	139,487	-	-
Facility management	-	-	117,704
Facility operations	-	-	78,033
Professional Services	-	-	65,520
Rent	-	-	-
Deaconess Center Shared Services	-	-	-
Public Relations	-	-	-
Office Operations	-	-	-
Travel and Meetings	-	-	-
Governance	-	-	-
Insurance	-	-	16,746
Memberships	-	-	-
Interest Expense	-	-	64,647
Deaconess Center Introduction Events	-	-	-
Annuity Payments	-	-	-
Unitrust Payments	-	-	-
Depreciation	-	-	257,395
Total Functional Expenses	$ 1,219,179	$ 200,000	$ 600,045

See accompanying notes to financial statements

Program Services		Supporting Services	
Grant Administration Expenses	Total Program Services	General and Administrative Expenses	Total
$ -	$ 268,703	$ -	$ 268,703
-	447,000	-	447,000
-	74,632	-	74,632
-	69,321	-	69,321
-	15,000	-	15,000
-	15,787	-	15,787
-	200,000	-	200,000
-	2,250	-	2,250
-	53,895	-	53,895
-	29,338	-	29,338
-	50,010	-	50,010
-	53,756	-	53,756
-	1,279,692	-	1,279,692
145,306	284,793	464,924	749,717
-	117,704	-	117,704
-	78,033	-	78,033
89,805	155,325	89,806	245,131
2,000	2,000	2,000	4,000
-	-	-	-
11,918	11,918	11,918	23,836
24,052	24,052	24,051	48,103
33,189	33,189	33,188	66,377
5,870	5,870	5,870	11,740
4,027	20,773	4,028	24,801
2,912	2,912	2,912	5,824
-	64,647	257,878	322,525
-	-	129,471	129,471
-	-	650	650
-	-	13,298	13,298
-	257,395	43,755	301,150
$ 319,079	$ 2,338,303	$ 1,083,749	$ 3,422,052

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Deaconess Foundation was established for the purpose of supporting the health care and health education ministry of the Missouri Mid-South Conference and Illinois South Conference of the United Church of Christ. Its mission is: "In the spirit of our faith heritage, the mission of Deaconess Foundation is the improved health of the metropolitan St. Louis community and its people." Deaconess Foundation's Board of Trustees is composed of fifteen church and community representatives.

During the year ended December 31, 2017, Deaconess Foundation established a single purpose not-for-profit entity, Deaconess Center For Child Well-Being (the "Center"), to facilitate New Market Tax Credit (NMTC) transactions. As a community action tank, the Center's sole purpose is to provide financial and operational support of the Foundation's offices and community convening space to further its mission to build power to advance child well-being in the St. Louis region.

Basis of Presentation

The consolidated financial statements consist of the accounts of Deaconess Foundation and the Center (collectively, the "Foundation"). Significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements of the Foundation have been prepared on the accrual basis and in accordance with U.S. Generally accepted accounting principles ("US GAAP"), which require the foundation to report information regarding its financial positon and activities according to the follow net asset classifications:

> **Net assets without donor restrictions**: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and Board of Trustees ("Board"). From time to time, the Board designates a portion of net asset for specified purposes which make them unavailable for use at management's discretion.
>
> **Net assets with donor restrictions:** Net Assets that are subject to donor and grantor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions will never lapse, thus requiring that the funds be retained permanently.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Foundation considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents. At December 31, 2018 and 2017, the Foundation had credit risk arising from cash deposits in excess of federally insured limits of $250,000. The Foundation has not incurred any loss resulting from these excess cash balances during the periods under audit.

The Foundation has NMTC financing funds, which are held under fund control by the investor bank to the NMTC financing transaction (as described in Note K) and are restricted for use toward construction of the Foundation's offices and community convening space.

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

Fair Value of Financial Instruments

The fair values of financial instruments including cash and cash equivalents, accounts receivable, other assets, and accounts payable and accrued expenses approximate carrying value due to the short-term nature of these accounts.

The Foundation has determined the fair value of certain assets on a recurring basis through application of ASC 820, as disclosed in Note H to the financial statements.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes investments reported at net asset value per share with lock-up periods of 90 days or less. Level 2 methods are also used in measuring the initial fair value of long-term pledges.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

There were no triggering events that required fair value measurements of the Foundation's nonfinancial assets and liabilities at December 31, 2018 and 2017.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Foundation, that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in net assets without donor restrictions, if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Accounts Receivable

Accounts receivable of $4,093 and $24,863 at December 31, 2018 and 2017, respectively are considered by the Foundation's management to be fully collectible and accordingly, elects not to establish an allowance account.

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

Property and Equipment

Equipment is valued at historical or estimated cost. Donated assets are recorded at fair market value when received. Depreciation is computed using the straight-line method. Property and equipment is depreciated over estimated useful lives ranging from five to forty years. Expenditures for maintenance and repairs are charged to operations as incurred and expenditures for improvements and major rehabilitations that extend the useful life of an asset are capitalized.

Investments

The Foundation's purchased investments are recorded at cost. Thereafter, they are carried at fair value (see Note E). Contributed securities are stated at their fair value on the date of receipt using a Level 1, 2 or 3 fair value approach depending on the type of contributed security. It is the policy of the Foundation to sell all contributed securities as soon as they are received. Gains and losses on sales of investments are generally determined on a specific cost identification basis. The Foundation is provided with estimates regarding fair value measures for these investments by its investment managers, who have derived these values from available information from actively traded markets. This information has been used by the Foundation in preparing the financial statements. Investment income/(loss), net of expenses is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Deferred Financing Costs

The Foundation incurred costs associated with its NMTC transactions (Note K) of $256,988 at December 31, 2017. This amount is included as an offset to New Market Tax Credit notes payable on the accompanying consolidated statements of financial position. This amount will be amortized to expense by the straight line method over the life of the related notes payable.

Income Taxes

The Foundation qualifies as a not-for-profit religious organization under Internal Revenue Code Section 501(c)(3) and as a non-private foundation under Section 509(a)(3) of the Code and, therefore, is exempt from federal, state, and local income taxes.

The Foundation follows the provisions of ASC 740-10-25 requiring disclosure of uncertain tax positions. There has been no interest or penalties recognized in the Statements of Activities or in the Statements of Financial Position related to uncertain tax positions. In addition, no tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The Foundation evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures and discussions with outside experts.

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

Accounting Pronouncements Adopted

The Foundation adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 – *Not-for-Profit Entities (topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. New disclosure on liquidity and availability of resources has also been included (Note I).

The accompanying information from the 2017 financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14. As a result, the changes had no impact on the previously stated total net asset balance.

Recent Accounting Pronouncements

Revenue Recognition – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Foundation is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

Use of 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 certain reported amounts and disclosures. Actual results could differ from these estimates.

Reclassifications

Certain 2017 amounts have been reclassified to conform to 2018 presentation.

Subsequent Events

In accordance with ASC 855, the Foundation has evaluated subsequent events through June 4, 2019, which is the date the financial statements were available to be issued.

B. NOTES RECEIVABLE

Notes receivable is comprised of the following at December 31:

	2018	2017
Loans to community development financial institutions, interest at 3% payable quarterly	$ 800,000	$ 250,000
Interest receivable	2,006	1,917
Total notes receivable	$ 802,006	$ 251,917

At December 31, 2018 and 2017, the Foundation considers notes receivable to be fully collectible; accordingly, an allowance is not required. If amounts become uncollectible, they will be charged to operations when that determination is made.

C. INVESTMENTS

Investments are carried at fair market value and consist of the following at December 31:

	2018	2017
Equity securities and mutual funds	$ 30,292,493	$ 33,484,696
U.S. government and corporate bonds and mutual funds	3,539,428	4,272,635
Limited partnerships	2,554,485	4,671,707
Hedge funds	4,218,119	4,682,002
Tangible assets	1,291,950	1,518,085
Cash and cash equivalents	2,716,506	3,058,618
Total investments at market value	44,612,981	51,687,743
Total investments at cost	46,754,469	46,141,538
Cumulative unrealized gain (loss) on investment	$ (2,141,488)	$ 5,546,205

D. OTHER INVESTMENT

Other investment consists of a 2.3% equity interest in a closely held corporation and is carried at estimated fair market value at December 31, 2018 and 2017.

E. INVESTMENT INCOME (LOSS)

Investment income (loss) is comprised of the following for the years ended December 31:

	2018	2017
Interest, dividend, and distribution income	$ 1,785,659	$ 2,365,047
Net realized gains on sales of investments	1,799,809	1,829,677
Change in net unrealized gains and (losses) on investments	(6,643,132)	3,293,793
Investment expense	(144,742)	(141,687)
Total investment income (loss), net of expenses	$ (3,202,406)	$ 7,346,830

Investment income (loss) consists of interest income, dividend income, realized gains, and unrealized gains and is allocated among the various funds of the Foundation. Allocation is based on the relative value of each fund in relation to the total value of all funds.

F. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Beneficial interest in perpetual trusts consists of unconditional promises to give from perpetual trusts created by independent donors, which are not in the possession or control of the Foundation but are held and administered by independent bank trustees. The Foundation, along with other specified not-for-profit organizations, is the beneficiary of these trusts. The Foundation only derives income from these trusts, which is included in donations on the Statements of Activities. The principal of each trust is not available to the Foundation. The Foundation has recorded promises to give equal to the Foundation's estimated share of the current fair value of the trusts. For the years ended December 31, 2018 and 2017, the Foundation's share of the change in fair value of the trusts was ($113,109) and $96,321 respectively.

The values of the underlying assets within the Foundation's beneficial interest in perpetual trusts are determined by the benefactors' investment managers, who have derived these values from available information in actively traded markets. However, the Foundation does not have access to any existing markets in which its beneficial interest could be bought or sold. As a result, management has classified its interest in beneficial trusts as Level 3 (subject to unobservable inputs) for purposes of fair value disclosure requirements at Note H.

G. ENDOWMENT

The Foundation endowment consists of seventeen individual donor restricted funds established for a variety of purposes. In accordance with FASB ASC 958-205-45, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment balances are included in investments in the Statements of Financial Position.

The Board of Trustees of the Foundation has interpreted the State of Missouri enacted version of 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 permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

(1) The duration and preservation of the fund,
(2) The purposes of the Organization and the donor-restricted endowment fund,
(3) General economic conditions,
(4) The possible effect of inflation and deflation,
(5) The expected total return from income and the appreciation of investments,
(6) Other resources of the Organization, and
(7) The investment policies of the Organization.

The Foundation has adopted investment and spending 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. The Foundation's spending policies include annual cash distributions of 4% of the average annual market value of assets to be used for program expenses in alignment with the Foundation's strategic direction and an annual cash distribution target of 1.5% of the annual market value of assets to be used for general operations of the Foundation. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Foundation has outsourced the management and investment of its portfolio to an Outsourced Chief Investment Officer, defined as an independent third party that provides full discretionary investment management services, while adhering to a defined Trust Fiduciary Standard. The Foundation relies on a total return strategy in which investment returns are achieved both through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve a rate of return greater than inflation as represented by the Consumer Price Index plus 5%.

G. **ENDOWMENT** *(Continued)*

The Foundation has a policy for distribution of program related expenses each year based on the average annual market value of assets over the prior 28 quarters through the calendar year preceding the year in which the program expenses are incurred. In establishing this policy, the Foundation considered the long-term expected rate of return on its endowment assets.

The changes in endowment net assets for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions: Spendable	With Donor Restrictions: Unspendable	Total
Endowment net assets, January 1, 2018	$ -	$ 13,293,212	$ 614,330	$ 13,907,542
Contributions	-	84,653	-	84,653
Investment return:				
Investment income, net of realized gains and expenses	-	914,220	-	914,220
Net appreciation (depreciation)	-	(1,785,707)	-	(1,785,707)
Expenses	-	-		-
Net assets released from restriction	-	(276,924)	(19,362)	(296,286)
Endowment net assets, December 31, 2018	$ -	$ 12,229,454	$ 594,968	$ 12,824,422

The changes in endowment net assets for the year ended December 31, 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions: Spendable	With Donor Restrictions: Unspendable	Total
Endowment net assets, January 1, 2017	$ -	$ 12,291,848	$ 614,330	$ 12,906,178
Contributions	-	60,000	-	60,000
Investment return:				
Investment income, net of realized gains and expenses	-	1,023,098	-	1,023,098
Net appreciation (depreciation)	-	829,535	-	829,535
Expenses	-	-		-
Net assets released from restriction	-	(911,269)	-	(911,269)
Endowment net assets, December 31, 2017	$ -	$ 13,293,212	$ 614,330	$ 13,907,542

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount which the donor originally contributed to the Foundation to retain as a fund of perpetual duration.

H. FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis at December 31, 2018 and 2017 is as follows:

Fair Value Measurements at December 31, 2018:

December 31, 2018	Fair Value	Active Markets Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Inputs (Level 3)
Common Stocks:				
Financial Services	$ 3,929,939	$ 3,929,939	$ -	$ -
Consumer	3,220,650	3,220,650	-	-
Technology	4,273,241	4,273,241	-	-
Biotechnology and Medical	3,442,024	3,442,024	-	-
Energy	1,144,640	1,144,640	-	-
Communications	1,579,589	1,579,589	-	-
Materials	1,237,423	1,237,423	-	-
Industrial	2,371,533	2,371,533	-	-
Other	9,093,454	9,093,454	-	-
Total Common Stocks	30,292,493	30,292,493	-	-
Fixed Income	3,539,428	-	3,539,428	-
Commodities	1,291,950	1,291,950	-	-
Cash and Cash Equivalents	2,716,506	2,716,506	-	-
Beneficial Interests in Perpetual Trusts	903,254	-	-	903,254
Other Investments	900,000	-	900,000	-
Unitrust Receivables	270,156	270,156	-	-
Total at Fair Value	$39,913,787	$ 34,571,105	$4,439,428	$ 903,254
Investments reported at NAV	$ 6,772,604			
Total	$46,686,391			

H. FAIR VALUE MEASUREMENTS *(Continued)*

Fair Value Measurements at December 31, 2017:

December 31, 2017	Fair Value	Active Markets Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Inputs (Level 3)
Common Stocks:				
Financial Services	$ 3,856,294	$ 3,856,294	$ -	$ -
Consumer	3,836,981	3,836,981	-	-
Technology	4,875,680	4,875,680	-	-
Biotechnology and Medical	2,739,572	2,739,572	-	-
Energy	1,218,810	1,218,810	-	-
Communications	639,027	639,027	-	-
Materials	1,115,843	1,115,843	-	-
Industrial	2,480,399	2,480,399	-	-
Other	12,722,090	12,722,090	-	-
Total Common Stocks	33,484,696	33,484,696	-	-
Public REITs	-	-	-	-
Fixed Income	4,272,635	-	4,272,635	-
Commodities	1,518,086	1,518,086	-	-
Cash and Cash Equivalents	3,058,618	3,058,618	-	-
Beneficial Interests in Perpetual Trusts	1,016,363	-	-	1,016,363
Other Investments	900,000	-	900,000	-
Unitrust Receivables	299,769	299,769	-	-
Total at Fair Value	$44,550,167	$ 38,361,169	$5,172,635	$1,016,363
Investments reported at NAV	$ 9,353,708			
Total	$53,903,875			

Fair value for investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Fair value for investments valued using Level 2 inputs are based primarily on available quoted prices for similar assets in active or inactive markets. Investments in the Level 2 category include fixed income bonds and fixed income commodity future contracts. Fair value for Level 3 investments is determined using inputs which are unobservable and significant to the fair value measurements.

H. FAIR VALUE MEASUREMENTS *(Continued)*

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Per Accounting Standards Update (ASU) 2009-12, the following table lists investments in other investment companies (limited partnerships) by major category:

	Strategy	NAV of Funds	Number of Funds	Remaining Life	Amount of Unfunded Commitments
Private Equity	Venture and buyout in U.S. and International	$ 1,836,287	7	1 to 6 years	$ 1,579,686
Real Assets	Real estate and natural resources, primarily in U.S.	718,198	2	1 to 3 years	167,576
Total		$ 2,554,485	9		$ 1,747,262

Private equity funds have no ability to be redeemed. Certain funds in the private real assets category have lock-up provisions ranging from six quarters to up to five years. Hedge funds have redemption terms ranging between quarterly redemption with 60 days' notice to semi-annual redemption with 30 days' notice. Certain hedge funds have lock-up provisions of one year.

I. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for grants and operating expenses within one year of the balance sheet date comprise the following at December 31, 2018:

Cash and cash equivalents	$ 1,347,490
Accounts receivable	4,093
Investment made available for current use	2,671,745
	$ 4,023,328

As described in Note G, the Foundation's annual spend rate is 5.5% of the average annual market value of Endowment assets over the prior 28 quarters through the calendar year preceding the year budgeted. A spendable amount of at least $2,671,745 will be made available for grantmaking and administrative expenses.

The Foundation manages its investments so that assets are available as needed for payment of awarded grants, general expenditures, liabilities, and other obligations as they become due.

J. MANAGED PHYSICIAN RETIREMENT LIABILITY

In conjunction with the 1997 sale of assets of Deaconess Incarnate Word Health System, the funds held under certain physician retirement agreements were transferred to the Foundation. The funds remaining relate to physician retirement agreements Deaconess Central Hospital held with three of its employees under Section 457 of the Internal Revenue Code. These agreements are funded with annuity policies from various insurers having an aggregate market value of approximately $537,590 and $545,607 at December 31, 2018 and 2017, respectively. These amounts are shown in the Statements of Financial Position as both an asset and a liability of the Foundation.

K. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2018	2017
Construction in progress	$ -	$ 6,685,426
Property and Equipment	8,194,897	392,648
	8,194,897	7,078,074
Less: accumulated depreciation	(334,031)	(71,419)
Property and equipment, net	$ 7,860,866	$ 7,006,655

Depreciation expense for the years ended December 31, 2018 and 2017 was $301,150 and $8,529 respectively.

Construction in progress related to the construction of the Foundation's office building and community convening space. The building was put into service during 2018.

L. NEW MARKET TAX CREDIT FINANCING

During the year ended December 31, 2017, the Foundation entered into several debt transactions to access funds through the New Market Tax Credit (NMTC) Program. As part of these transactions, the Foundation created a new entity, Deaconess Center For Child Well-Being (as described in Note A). These funds were used to construct the Foundation's new office and community convening space on Vandeventer Avenue. The NMTC Program permits taxpayers to claim federal tax credits for making Qualified Equity Investments (QEI) in designated Community Development Entities (CDEs). These CDEs must use substantially all of the proceeds (87%) to make Qualified Low-Income Community Investments (QLICIs). The investor is provided with a tax credit, which is claimed over a seven-year period. The Foundation partnered with an investor, Capital One, N.A., to utilize the NMTC Program.

L. NEW MARKET TAX CREDIT FINANCING *(Continued)*

Capital One, N.A. established a special purpose entity, COCRF Investor 98, LLC, to raise capital for the transaction. COCRF, LLC was funded with $2,035,800 from Capital One, N.A. and a $3,964,200 loan from the Foundation.

The $3,964,000 loan from the Foundation requires interest only payments at 1% until August 2024. In September 2024, COCFR Investor 98, LLC will make a $43,222 principal and interest payment to the Foundation. Thereafter, the payments will consist of quarterly installments of $48,288 of principal plus accrued interest at 1% through June 2047.

The capital raised by COCRF Investor 98, LLC was used to make a $1,000,000 QEI in the CDE, COCRF SubCDE, LLC and a $5,000,000 QEI in the CDE, St. Louis New Market Tax Credit Fund, LLC. These proceeds were used by the CDEs to make loans in the aggregate of $5,800,000 to the Deaconess Center For Child Well-Being. These loans bear interest at 1.1146% and require interest only payments through August 2024, at which time payments increase to fully amortize the note over 23 years, with final maturity in June 2047. The Center is using the loan proceeds to fund the construction of the Foundation's offices and community convening space. This capital asset serves as collateral to the financing arrangement. The loans are classified as New Market Tax Credit notes payable on the accompanying consolidated statements of financial position, net of deferred financing costs of $256,988 (as described in Note A and below).

Interest expense related to the NMTC financing for the year ended December 31, 2017 was $21,725 and has been capitalized as construction in progress in the accompanying consolidated statements of financial position, as such amount was incurred during the construction phase of the Foundation's office and community convening space.

Notes receivable and notes payable related to the NMTC financing reflected on the consolidated statements of financial position as of December 31, 2018 and 2017 are as follows:

	2018	2017
Notes Receivable:		
Deaconess Foundation Loan	$ 3,964,200	$ 3,964,200
Notes Payable:		
QLICI Loan A1	$ 660,700	$ 660,700
QLICI Loan A2	339,300	339,300
QLICI Loan B1	3,303,500	3,303,500
QLICI Loan B2	1,496,500	1,496,500
Less: Debt Issuance Costs	(218,450)	(256,988)
	$ 5,581,550	$ 5,543,012

L. NEW MARKET TAX CREDIT FINANCING *(Continued)*

The seven year compliance period for the NMTC financing will end in August 2024, at which time Capital One, N.A. may exit the transaction through the exercise of a call/put agreement which it has entered into with the Foundation. Under the agreement, Capital One, N.A. may "put" its interest in COCRF Investor 98, LLC to the Foundation for a purchase price of $1,000. In the event that Capital One, N.A. has not exercised this put option, the Foundation has 180 days to exercise its call option to purchase Capital One, N.A.'s entire interest in COCRF Investor 98, LLC for a purchase price equal to the appraised value of Capital One, N.A.'s interest. To exercise the call option, the Foundation must be current on all payments under the four notes payable. The Foundation will realize its savings from the NMTC transactions through the exercise of this put or call option, at which time it will control COCRF Investor 98, LLC and can effectively forgive the remaining QLICI loans. No amounts have been recorded in the accompanying consolidated financial statements related to these put and call options.

M. NOTE PAYABLE

In conjunction with the NMTC financing described in Note L, during the year ended December 31, 2017, the Foundation entered into a $6,675,000 note payable agreement with a bank. Interest is payable quarterly at a fixed rate of 3.8% through August 25, 2024, at which time the entire balance of principal and interest is due. The note is secured by the Foundation's investment assets. The Foundation's obligation under this note payable contains certain covenants. The Foundation was in compliance with all covenants at December 31, 2018.

Interest expense related to the note payable for the year ended December 31, 2018 and 2017 was $257,878 and $85,959, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of activities.

N. LEASES

The Foundation leased office space from an outside party under a lease arrangement, which expired in December 2017. Rent expensed under the lease arrangement totaled approximately $73,747 for the year ended December 31, 2017.

During 2018, the Foundation's activities were conducted from their own office building as described in Note A.

O. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions that are spendable are available for the following purposes at December 31:

	2018	2017
Ballman Family Trust	$ 7,236,390	$ 7,753,737
Scholarships	4,700,504	5,239,706
Unitrusts - time	270,156	299,769
Black Funders of St. Louis Giving Circle	22,404	-
	$ 12,229,454	$ 13,293,212

P. NET ASSETS WITH DONOR RESTRICTIONS THAT ARE PERMANENTLY RESTRICTED

Net assets with donor restrictions totaling $1,498,221 and $1,630,692 at December 31, 2018 and 2017, respectively, are restricted to investment in perpetuity. Income from these restricted net assets may be used for community programs at December 31, 2018 and 2017. Such unspent amounts are included in the Net Assets with Donor Restrictions (Note N).

Q. RETIREMENT PLAN

The Foundation maintains a 403(b) retirement plan, which covers all eligible employees. The Foundation contributes an amount equal to 5% of eligible employee salaries, which totaled $22,971 and $23,141 during the years ended December 31, 2018 and 2017, respectively.

R. GRANTS

The Foundation disburses grants to selected organizations. The Foundation has unconditional grant commitments of $157,374 and $62,374 that are recorded in the financial statements at December 31, 2018 and 2017, respectively.

S. AGREEMENT WITH EDEN THEOLOGICAL SEMINARY

During the year ended December 31, 2007, the Foundation executed a Funding Agreement (the "Agreement") with Eden Theological Seminary ("Eden") to provide for the long-term organizational and financial stability of Eden as a center of theological study and learning. In accordance with the Agreement, the Foundation's Board of Trustees designated $15,000,000 of the Foundation's unrestricted net assets, plus a pro rata share of the Foundation's investment earnings each year, to fulfill the terms of the Agreement. The commitment was payable to Eden over a five year period ending 2011. The Agreement provided the Foundation with certain termination rights and required certain best practices to be followed by Eden. As stipulated by the Agreement, the Foundation also retained an interest in the real property on which Eden is located (Eden Property).

In November 2009, the Agreement was terminated and a new agreement was executed (the "New Agreement"). In accordance with the New Agreement, the Foundation contributed $14,380,419 to Eden as the Foundation's final funding commitment. As stipulated in the New Agreement, the $14,380,419 was to be used to establish a permanent endowment at Eden, redeem certain bond liabilities, and provide interim funding of Eden's operations. The amount was paid in full to Eden during the year ended December 31, 2010.

The New Agreement contains certain termination provisions, investment criteria provisions related to the establishment of a permanent endowment and the Foundation continues to retain an interest in the Eden Property.

T. RISKS AND UNCERTAINTIES

The Foundation's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to current economic conditions, it is at least reasonably possible changes in the value of the Foundation's investments will occur in the near term and those changes could materially affect the amounts reported in the Foundation's financial statements.

SUPPLEMENTAL INFORMATION

Deaconess Foundation
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2018

	Deaconess Foundation	Deaconess Center For Child Well-Being	Eliminations	Total
ASSETS				
Cash and cash equivalents	$ 490,226	$ 857,264	$ -	$ 1,347,490
Restricted cash and cash equivalents	-	-	-	-
Accounts receivable	148,682	100,816	(245,405)	4,093
Notes receivable	802,006	-	-	802,006
New Market Tax Credit notes receivable	3,964,200	-	-	3,964,200
Deaconess Center for Child Well-Being	1,250,000	-	(1,250,000)	-
Investments	44,612,981	-	-	44,612,981
Other investment	900,000	-	-	900,000
Beneficial interest in perpetual trusts	903,254	-	-	903,254
Managed physician retirement funds	537,590	-	-	537,590
Unitrust receivables	270,156	-	-	270,156
Land	-	454,153	-	454,153
Property and equipment, net	455,744	7,405,122	-	7,860,866
Other assets	125,235	-	-	125,235
Total Assets	$54,460,074	$ 8,817,355	$ (1,495,405)	$61,782,024
LIABILITIES				
Accounts payable and accrued expenses	$ 184,024	$ 163,289	$ (245,405)	$ 101,908
Grants payable	157,374	-	-	157,374
New Market Tax Credit notes payable	-	5,581,550	-	5,581,550
Note payable	6,675,000	1,250,000	(1,250,000)	6,675,000
Managed physician retirement liability	537,590	-	-	537,590
Total Liabilities	7,553,988	6,994,839	(1,495,405)	13,053,422
NET ASSETS				
Without donor restrictions	33,122,411	1,878,516	-	35,000,927
With donor restrictions	13,727,675	-	-	13,727,675
Total Net Assets	46,850,086	1,878,516	-	48,728,602
Total Liabilities and Net Assets	$54,404,074	$ 8,873,355	$ (1,495,405)	$61,782,024

See independent auditors' report on supplemental information
and accompanying notes to financial statements.

Deaconess Foundation
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

	Deaconess Foundation	Deaconess Center For Child Well-Being	Eliminations	Total
SUPPORT, REVENUES, AND GAINS				
Donations	$ 162,061	$ 60	$ -	$ 162,121
Lease income	-	288,750	(288,750)	-
Facility shared services	-	162,695	(114,515)	48,180
Investment income, net of expenses	(3,189,906)	-	(12,500)	(3,202,406)
Change in value of beneficial interest in trust	(113,109)	-	-	(113,109)
Other program fees	92,995	440	(56,000)	37,435
In kind revenue	-	-	-	-
Net assets released from restrictions	-	-	-	-
Total Support, Revenues, and Gains	(3,047,959)	451,945	(471,765)	(3,067,779)
EXPENSES				
Program Services:				
Major grant programs	1,445,084	-	(225,905)	1,219,179
Nursing scholarship program	200,000	-	-	200,000
Facility operations and management	-	668,545	(68,500)	600,045
Grant administration expenses	407,759	-	(88,680)	319,079
Total Program Services	2,052,843	668,545	(383,085)	2,338,303
Supporting Services:				
General and administrative expenses	1,172,429	-	(88,680)	1,083,749
Total Supporting Services	1,172,429	-	(88,680)	1,083,749
Total Expenses	3,225,272	668,545	(471,765)	3,422,052
CHANGE IN NET ASSETS	(6,273,231)	(216,600)	-	(6,489,831)
NET ASSETS, Beginning of year	53,179,317	2,039,116	-	55,218,433
NET ASSETS, End of year	$ 46,906,086	$ 1,822,516	$ -	$ 48,728,602

See independent auditors' report on supplemental information
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