DEACONESS FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Deaconess Foundation

CONTENTS

SCHMERSAHL TRELOAR & CO.
Certified Public Accountants

Independent Auditors' Report

Board of Trustees
Deaconess Foundation
St. Louis, Missouri

We have audited the accompanying consolidated financial statements of Deaconess Foundation which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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

(314) 966-2727 • fax (314) 966-6464 • 10805 Sunset Office Drive, Suite 400 • St. Louis, MO 63127 • e-mail: stcpa@stcpa.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Deaconess Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplemental 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 and 24 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. The 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 or to 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.

Schowalter Treloar Co., PC

St. Louis, Missouri
June 12, 2018

CONSOLIDATED FINANCIAL STATEMENTS

Deaconess Foundation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 486,079	$ 165,916
Restricted cash and cash equivalents	3,895,546	-
Accounts receivable	24,863	-
Notes receivable	251,917	551,917
New Market Tax Credit notes receivable	3,964,200	-
Investments	51,687,743	47,289,106
Other investment	900,000	900,000
Beneficial interest in perpetual trusts	1,016,363	920,042
Managed physician retirement funds	545,607	504,015
Unitrust receivables	299,769	289,899
Land	454,154	454,154
Property and equipment, net	7,006,655	347,901
Other assets	153,103	170,974
Total Assets	$ 70,685,999	$ 51,593,924

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Accounts payable and accrued expenses	$ 2,641,573	$ 238,452
Grants payable	62,374	133,886
New Market Tax Credit notes payable	5,543,012	-
Note payable	6,675,000	-
Managed physician retirement liability	545,607	504,015
Total Liabilities	15,467,566	876,353
NET ASSETS		
Unrestricted		
Available for general use	40,294,529	36,891,352
Temporarily restricted	13,293,212	12,291,848
Permanently restricted	1,630,692	1,534,371
Total Net Assets	55,218,433	50,717,571
Total Liabilities and Net Assets	$ 70,685,999	$ 51,593,924

See accompanying notes to financial statements

Deaconess Foundation
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUES, AND GAINS				
Donations	$ 47,398	$ 60,000	$ -	$ 107,398
Investment income (loss), net of expenses	5,494,197	1,852,633	-	7,346,830
Change in value of beneficial interest in trust	-	-	96,321	96,321
Other program fees	7,266	-	-	7,266
In-kind revenue	333	-	-	333
Net assets released from restrictions	911,269	(911,269)	-	-
Total Support, Revenues, and Gains	6,460,463	1,001,364	96,321	7,558,148
EXPENSES				
Program Services:				
Major grant programs	1,672,664	-	-	1,672,664
Small grant programs	-	-	-	-
Nursing scholarship program	113,400	-	-	113,400
Total Program Services	1,786,064	-	-	1,786,064
Supporting Services:				
General and administrative expenses	752,602	-	-	752,602
Grant administration expenses	518,620	-	-	518,620
Total Supporting Services	1,271,222	-	-	1,271,222
Total Expenses	3,057,286	-	-	3,057,286
CHANGE IN NET ASSETS	3,403,177	1,001,364	96,321	4,500,862
NET ASSETS, Beginning of year	36,891,352	12,291,848	1,534,371	50,717,571
NET ASSETS, End of year	$ 40,294,529	$ 13,293,212	$ 1,630,692	$ 55,218,433

See accompanying notes to financial statements

Year Ended December 31, 2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 59,085	$ 80,000	$ -	$ 139,085
2,537,077	802,447	-	3,339,524
-	-	30,098	30,098
800	-	-	800
228,443	(228,443)	-	-
2,825,405	654,004	30,098	3,509,507
1,656,947	-	-	1,656,947
137,470	-	-	137,470
120,000	-	-	120,000
1,914,417	-	-	1,914,417
650,595	-	-	650,595
515,517	-	-	515,517
1,166,112	-	-	1,166,112
3,080,529	-	-	3,080,529
(255,124)	654,004	30,098	428,978
37,146,476	11,637,844	1,504,273	50,288,593
$ 36,891,352	$ 12,291,848	$ 1,534,371	$ 50,717,571

Deaconess Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,500,862	$ 428,978
Adjustments to reconcile change in net assets to net change in cash and cash equivalents from operating activities:		
Depreciation	8,529	5,827
Change in value of beneficial interest in trusts	(96,321)	(30,098)
Net realized and unrealized (gains) losses on investments	(5,113,593)	(237,056)
(Increase) decrease in assets:		
Accounts receivable	(24,863)	-
Other assets	17,871	4,143
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	2,403,121	156,983
Grants payable	(71,512)	(42,723)
Net Change in Cash and Cash Equivalents from Operating Activities	1,624,094	286,054
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(18,245,293)	(43,435,704)
Proceeds from sales of investments	18,960,249	43,098,536
Change in investment in notes receivable	300,000	-
Issuance of New Market Tax Credit notes receivable	(3,964,200)	
Change in unitrust receivables	(9,870)	(25,912)
Purchases of land	-	(454,154)
Purchases of property and equipment	(6,667,283)	(326,320)
Net Change in Cash and Cash Equivalents from Investing Activities	(9,626,397)	(1,143,554)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on New Market Tax Credit notes payable	5,543,012	-
Borrowings on other note payable	6,675,000	-
Net Change in Cash and Cash Equivalents from Investing Activities	12,218,012	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,215,709	(857,500)
CASH AND CASH EQUIVALENTS, Beginning of year	165,916	1,023,416
CASH AND CASH EQUIVALENTS, End of year	$ 4,381,625	$ 165,916
CASH AND CASH EQUIVALENTS	$ 486,079	$ 165,916
RESTRICTED CASH AND CASH EQUIVALENTS	3,895,546	-
	$ 4,381,625	$ 165,916
SUPPLEMENTAL CASH FLOW INFORMATION		
Amounts paid for:		
Interest	$ 107,685	$ -
Income tax	$ -	$ -

See accompanying notes to financial statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Deaconess Foundation ("Deaconess") 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." The Deaconess Board of Trustees is composed of fifteen church and community representatives.

During the year ended December 31, 2017, Deaconess 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 for the construction and operation of the Deaconess offices and community convening space to further its mission to build power to advance child well-being in the St. Louis region

Principles of Consolidation

The accompanying consolidated financial statements for the year ended December 31, 2017 include the accounts of Deaconess Foundation and Deaconess Center For Child Well Being collectively (the "Foundation"). All significant inter-organization transactions and balances have been eliminated in consolidation. The financial statements for the year ended December 31, 2016 reflect the activities of Deaconess Foundation only.

Basis of Presentation

The Foundation follows accounting standards set by the Financial Accounting Standards Board (FASB).

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting. Financial statement presentation follows the recommendations of the FASB Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets include all resources which are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the Foundation to utilize funds in furtherance of its mission.

Temporarily Restricted Net Assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds or limitations imposed by law. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the Foundation which fulfill the restriction.

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

Basis of Presentation *(Continued)*

Permanently Restricted Net Assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently.

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, 2017 and 2016.

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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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

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.

Property and Equipment

Equipment is valued at historical or estimated cost. Donated assets are recorded at fair market value when received. Assets under construction are capitalized as construction in progress and reported at cost, including the Deaconess Center for Child Well-Being, the administrative offices and convening space for Deaconess which was completed on January 1, 2018. Construction in progress is not depreciated. Depreciation is computed using the straight-line method. Equipment is depreciated over estimated useful lives ranging from five to ten 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 investments are carried at fair value and net realized and unrealized gains and losses are reflected in the Statement of Activities (see Note E). 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.

Deferred Financing Costs

The Foundation incurred legal and accounting costs associated with its NMTC transactions (Note K) of $256,988 during the year ended 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.

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

Income Taxes

Deaconess 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 Center was established as a qualified low-income community business (QALICB) under new market tax credit guidelines. It operates as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and as a supporting organization under Section 509(a)(3) of the Code. The Center is required to file an information return, IRS Form 990, beginning with the year ended December 31, 2017.

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.

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, 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.

Restricted Cash and Cash Equivalents

The Center's NMTC funds are held under the control of 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)*

New Accounting Pronouncements

Not-for-Profit Entities – In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update, which amends the requirements for financial statements and notes in *Topic 958, Not-for-Profit Entities*, require a Not-for-Profit (NFP) to:

- Present on the face of the statement of financial position amounts for two classes of net assets as "net assets with donor restrictions" and "net assets without donor restrictions," rather than for the currently required three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than that of the currently required three classes.
- Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosures about (1) amounts and purposes of governing board designations that result in self-imposed limits on the use of resources without donor-imposed restrictions (2) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources (3) qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date (4) quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes that communicates the availability of a NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date (5) amounts of expenses by both their natural classification and their functional classification (6) report investment return net of external and direct internal investment expenses, and no longer require disclosure of those netted expenses (7) use, in absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

This standard is effective for fiscal years beginning after December 15, 2017. The Foundation is evaluating the impact that this updated standard will have on the consolidated financial statements and related notes to the consolidated financial statements.

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

New Accounting Pronouncements *(Continued)*

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Subsequent Events

In accordance with ASC 855, the Foundation has evaluated subsequent events through June 12, 2018, 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:

	2017	2016
Loans to community development financial institutions, interest at 3% payable quarterly	$250,000	$550,000
Interest receivable	1,917	1,917
Total Notes Receivable	$251,917	$551,917

At December 31, 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:

	2017	2016
Equity securities and mutual funds	$33,484,696	$24,082,149
U.S. government and corporate bonds and mutual funds	4,272,635	5,778,337
Limited partnerships	4,671,706	5,709,151
Hedge funds	4,682,003	6,262,493
Real estate	-	1,939,112
Tangible assets	1,518,085	1,492,070
Cash and cash equivalents	3,058,618	2,025,794
Total investments at market value	51,687,743	47,289,106
Total investments at cost	50,646,362	49,541,518
Cumulative Unrealized Gain (Loss) on Investments	$ 1,041,381	($ 2,252,412)

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, 2017 and 2016.

E. INVESTMENT INCOME (LOSS)

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

	2017	2016
Interest, dividend, and distribution income	$2,365,047	$3,207,014
Net realized gains on sales of investments	1,829,677	1,946,044
Change in net unrealized gains (losses) on investments	3,293,793	(1,708,988)
Investment expenses	(141,687)	(104,546)
Total Investment Income, Net of Expenses	$7,346,830	$3,339,524

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, 2017 and 2016, the Foundation's share of the change in fair value of the trusts was $96,321 and $30,098 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.

G. ENDOWMENT *(Continued)*

In accordance with UPMIFA, the Foundation 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 Foundation 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 Foundation, and
(7) The investment policies of the Foundation.

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%.

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.

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

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

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2017	$ -	$ -	$ 12,291,848	$ 614,330	$ 12,906,178
Contributions	-	-	60,000	-	60,000
Transfer of Net Assets	-	-	-	-	-
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

The changes in the Foundation's endowment net assets for the year ended December 31, 2016 are as follows:

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ -	$ -	$ 11,637,844	$ 614,330	$ 12,252,174
Contributions	-	-	80,000	-	80,000
Transfer of Net Assets	-	-	-	-	-
Investment return:					
Investment income, net of realized gains and expenses	-	-	861,413	-	861,413
Net appreciation (depreciation)	-	-	(58,966)	-	(58,966)
Expenses	-	-	-		
Net assets released from restriction	-	-	(228,443)	-	(228,443)
Endowment net assets, December 31, 2016	$ -	$ -	$ 12,291,848	$ 614,330	$ 12,906,178

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, 2017 and 2016 is as follows:

December 31, 2017	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable 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	-	-
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	$ 9,353,709			
Total	$ 53,903,876			

H. FAIR VALUE MEASUREMENTS *(Continued)*

December 31, 2016	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stocks:				
Financial Services	$ 2,948,063	$ 2,948,063	$ -	$ -
Consumer	3,094,720	3,094,720	-	-
Technology	2,884,931	2,884,931	-	-
Biotechnology and Medical	2,180,965	2,180,965	-	-
Energy	1,020,920	1,020,920	-	-
Communications	662,901	662,901	-	-
Materials	632,440	632,440	-	-
Industrial	1,748,872	1,748,872		
Other	8,908,340	8,908,340	-	-
Total Common Stocks	24,082,152	24,082,152	-	-
Public REITs	1,939,112	1,939,112	-	-
Fixed Income	5,778,337	-	5,778,337	-
Commodities	1,492,070	1,492,070	-	-
Cash and Cash Equivalents	2,025,794	2,025,794	-	-
Beneficial Interests in Perpetual Trusts	920,042	-	-	920,042
Other Investments	900,000	-	900,000	-
Unitrust Receivables	289,899	289,899	-	-
Total at Fair Value	$ 37,427,406	$ 29,829,027	$6,678,337	$ 920,042
Investments reported at NAV	$ 11,971,644			
Total	$ 49,399,050			

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.

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.

H. FAIR VALUE MEASUREMENTS *(Continued)*

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	$ 2,602,000	7	1 to 6 years	$ 1,583,046
Real Assets	Real estate and natural resources, primarily in U.S.	2,069,706	3	1 to 5 years	160,157
Total		$ 4,671,706	10		$ 1,743,203

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. At December 31, 2017, fourteen hedge funds totaled $ 4,682,003.

I. 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 $545,607 and $504,015 at December 31, 2017 and 2016, respectively. These amounts are shown in the Statements of Financial Position as both an asset and a liability of the Foundation.

J. PROPERTY AND EQUIPMENT

Equipment consists of the following at December 31:

	2017	2016
Construction	$6,685,426	$ 321,437
Equipment	392,648	230,340
	7,078,074	551,777
Less: accumulated depreciation	(71,419)	(203,876)
	$7,006,655	$ 347,901

Depreciation expense for the years ended December 31, 2017 and 2016 was $8,529 and $5,827 respectively.

K. 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 in St. Louis, Missouri. 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.

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

The $3,964,000 loan from Deaconess 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 Deaconess. 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.

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

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

	2017
Notes Receivable:	
Leveraged Loan	$ 3,964,200
Notes Payable - Center:	
QLICI Loan A1	$ 660,700
QLICI Loan B1	339,300
QLICI Loan A2	3,303,500
QLICI Loan B2	1,496,500
Less: Debt Issuance Costs	(256,988)
	$ 5,543,012

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.

L. NOTE PAYABLE

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

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

M. LEASES

In 2016, the Foundation entered into an office space lease arrangement from an outside party, which expired in December 2017. Rent expense under this lease arrangement totaled approximately $81,924 and $73,747 for the years ended December 31, 2017 and 2016, respectively.

Subsequent to December 31, 2017. The Foundation's activities were conducted from the new offices and convening space as described in Note A.

N. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Ballman family trust	$ 7,753,737	$ 6,712,080
Scholarships	5,239,706	4,647,630
Medical equipment	-	480,439
Unitrusts - time	299,769	289,898
Indigent patient care	-	108,801
Youth organizing	-	53,000
Total Temporarily Restricted Net Assets	$13,293,212	$12,291,848

O. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity. Income from permanently restricted net assets is restricted for community programs at December 31, 2017 and 2016. Such unspent amounts are included in the Temporarily Restricted Net Assets (Note N).

P. 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 $23,141 and $25,729 during the years ended December 31, 2017 and 2016, respectively.

Q. GRANTS

The Foundation disburses grants to selected organizations. The Foundation has not made any unconditional grant commitments that should be recorded in the financial statements at December 31, 2017 and 2016.

R. 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.

S. 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
Year Ended December 31, 2017

	Deaconess Foundation	Deaconess Center For Child Well-	Eliminations	Total
ASSETS				
Cash and cash equivalents	$ 486,079	$ -	$ -	$ 486,079
Restricted cash and cash equivalents	-	3,895,546	-	3,895,546
Accounts receivable	24,863	-	-	24,863
Notes receivable	1,501,917	-	(1,250,000)	251,917
New Market Tax Credit notes receivable	3,964,200	-	-	3,964,200
Investments	51,687,743	-	-	51,687,743
Other investment	900,000	-	-	900,000
Beneficial interest in perpetual trusts	1,016,363	-	-	1,016,363
Managed physician retirement funds	545,607	-	-	545,607
Unitrust receivables	299,769	-	-	299,769
Land	-	454,154	-	454,154
Property and equipment, net	321,229	6,685,426	-	7,006,655
Other assets	153,103	-	-	153,103
Total Assets	$ 60,900,873	$ 11,035,126	$ (1,250,000)	$ 70,685,999
LIABILITIES				
Accounts payable and accrued expenses	438,575	2,202,998	$ -	$ 2,641,573
Grants payable	62,374	-	-	62,374
New Market Tax Credit notes payable	-	5,543,012	-	5,543,012
Note payable	6,675,000	1,250,000	(1,250,000)	6,675,000
Managed physician retirement liability	545,607	-	-	545,607
Total Liabilities	7,721,556	8,996,010	(1,250,000)	15,467,566
NET ASSETS				
Unrestricted				
Available for general use	38,255,413	2,039,116	-	40,294,529
Temporarily restricted	13,293,212	-	-	13,293,212
Permanently restricted	1,630,692	-	-	1,630,692
Total Net Assets	53,179,317	2,039,116	-	55,218,433
Total Liabilities and Net Assets	$ 60,900,873	$ 11,035,126	$ (1,250,000)	$ 70,685,999

Deaconess Foundation
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

	Deaconess Foundation	Deaconess Center For Child Well-	Eliminations	Total
SUPPORT, REVENUES, AND GAINS				
Donations	$ 107,398	$ -	$ -	$ 107,398
Contribution - New Market Tax Credit Financing	-	2,039,116	(2,039,116)	-
Investment income, net of expenses	7,346,830	-	-	7,346,830
Change in value of beneficial interest in trust	96,321	-	-	96,321
Other program fees	7,266	-	-	7,266
In kind revenue	333	-	-	333
				-
Total Support, Revenues, and Gains	7,558,148	2,039,116	(2,039,116)	7,558,148
EXPENSES				
Program Services:				
Major grant programs	1,672,664	-	-	1,672,664
Nursing scholarship program	113,400	-	-	113,400
Grant - New Market Tax Credit Financing	2,039,116	-	(2,039,116)	-
Total Program Services	3,825,180	-	(2,039,116)	1,786,064
Supporting Services:				
General and administrative expenses	752,602	-	-	752,602
Grant administration expenses	518,620	-	-	518,620
				-
Total Supporting Services	1,271,222	-	-	1,271,222
Total Expenses	5,096,402	-	(2,039,116)	3,057,286
CHANGE IN NET ASSETS	2,461,746	2,039,116	-	4,500,862
				-
NET ASSETS, Beginning of year	50,717,571	-	-	50,717,571
NET ASSETS, End of year	$ 53,179,317	$ 2,039,116	$ -	$ 55,218,433