The Coleman Foundation, Inc.

Financial Report
December 31, 2019

Contents

RSM

Independent Auditor's Report

RSM US LLP

Board of Directors
The Coleman Foundation, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of The Coleman Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 The Coleman Foundation, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Chicago, Illinois
July 14, 2020

The Coleman Foundation, Inc.

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	**$ 215,574**	$ 956,281
Investments	**189,131,929**	163,239,848
Investment in real estate LLC	**999,960**	-
Dividends and interest receivable	**411,185**	360,967
Deposits and prepaid expenses	**72,691**	87,222
Property and equipment, net	**62,375**	36,324
Total assets	**$ 190,893,714**	$ 164,680,642
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 322,710**	$ 221,501
Grants approved for future payment	**5,416,178**	3,449,878
Deferred federal excise taxes	**604,623**	396,580
Total liabilities	**6,343,511**	4,067,959
Net assets:		
Without donor restrictions	**184,550,203**	160,612,683
Total liabilities and net assets	**$ 190,893,714**	$ 164,680,642

See notes to financial statements.

The Coleman Foundation, Inc.

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Investment return (loss), net	**$ 36,734,369**	$ (10,821,202)
Net income from real estate LLC	**19,960**	-
Total revenues	**36,754,329**	(10,821,202)
Expenses:		
Program services expense	**11,470,105**	9,266,751
Management and general expense	**1,346,704**	853,529
Total expenses	**12,816,809**	10,120,280
Increase (decrease) in net assets	**23,937,520**	(20,941,482)
Net assets at beginning of year	**160,612,683**	181,554,165
Net assets at end of year	**$ 184,550,203**	$ 160,612,683

See notes to financial statements.

The Coleman Foundation, Inc.

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	**$ 23,937,520**	$ (20,941,482)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	**8,216**	5,485
Net realized (gains) losses and change in unrealized	**(33,091,029)**	13,928,994
Net income from real estate LLC	**(19,960)**	-
Changes in:		
Dividends and interest receivable	**(50,218)**	11,433
Deposits and prepaid expenses	**14,531**	(60,349)
Accounts payable and accrued expenses	**101,209**	7,065
Federal excise tax payable	**-**	(59,389)
Grants approved for future payment	**1,966,300**	1,222,000
Deferred federal excise taxes payable	**208,043**	(17,467)
Net cash used in operating activities	**(6,925,388)**	(5,903,710)
Cash flows from investing activities:		
Proceeds from sales of investments	**51,651,752**	13,362,669
Purchases of investments	**(44,452,804)**	(13,011,177)
Distribution from real estate LLC	**20,000**	-
Capital contribution to real estate LLC	**(1,000,000)**	-
Purchases of property and equipment	**(34,267)**	(28,007)
Net cash provided by investing activities	**6,184,681**	323,485
Decrease in cash and cash equivalents	**(740,707)**	(5,580,225)
Cash and cash equivalents:		
Beginning of year	**956,281**	6,536,506
End of year	**$ 215,574**	$ 956,281
Supplemental disclosure of cash flow information:		
Cash paid during the year for federal excise taxes	**$ 107,709**	$ 230,000

See notes to financial statements.

Note 1. Summary of Significant Accounting Policies

Organization: The Coleman Foundation, Inc. (the Foundation) is a private grant-making foundation established in Illinois in 1951. The Foundation supports entrepreneurship, cancer care and health rehabilitation services, and developmental disability service organizations primarily in the Chicago metropolitan area.

Financial statement presentation: The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as they apply to not-for-profit organizations. The financial statements are prepared on the accrual basis of accounting.

Accordingly, the classification of an organization's net assets and its revenue and expenditures is based on the existence or absence of restrictions. As the net assets of the Foundation do not have any restrictions which meet the definition of net assets with donor restrictions; all of the Foundation's net assets are classified as without donor restrictions.

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

Cash and cash equivalents: Cash and cash equivalents may at times exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes that the Foundation is not exposed to any significant credit risk on cash. For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Grants to qualifying tax-exempt organizations: In its financial statements, the Foundation makes a provision for grants that have been approved and scheduled for payment beyond December 31 each year. Thus, during the years 2019 and 2018, the Foundation approved grants totaling $10,538,933 and $8,569,390, respectively. The amounts of grants rescinded or returned in each of these years were $18,500 and $210,279, respectively. At December 31, 2019 and 2018, grants payable within one year were $4,176,728 and $1,451,250, respectively, and grants payable beyond one year were $1,239,450 and $1,998,628, respectively.

Investments: Investments are recorded at fair value in the statements of financial position, and changes in fair value are reported as net investment return in the statements of activities. Purchases and sales of investments are recorded on a trade-date basis. Gains and losses on sales of investments are recorded in the statements of activities in the period in which the investments are sold. Interest is recorded when earned. Dividends are accrued as of the dividend date.

Included within investments are certain professionally managed alternative investments that employ certain traditional as well as alternative investment strategies, and include investments in equities of private entities and real estate funds. Subject to certain conditions, as more fully described in the fund agreements, these funds may be restricted from withdrawal for a period of time.

Investment in real estate LLC: The Foundation owns a noncontrolling 50 percent interest in a real estate LLC (the LLC). The LLC is invested in certain commercial property. The Foundation accounts for this investment under the equity method of accounting under which the Foundation’s share of net income or net loss of the LLC is recognized as income in the Foundation’s statement of activities and added to the investment account, and distributions received from the LLC are treated as a reduction in the investment account. The Foundation made an initial capital contribution to the LLC of $1,000,000 during the year and received distributions of $20,000. The Foundation recorded their portion of net income of the LLC of $19,960 for the year ended December 31, 2019.

Note 1. Summary of Significant Accounting Policies (Continued)

Property and equipment: Computer, website, office furniture and equipment are recorded at cost and depreciated over their respective useful lives (5 years). Leasehold improvements are amortized using the straight line method over the shorter of the lease term or useful life of the asset. The Foundation follows the practice of capitalizing all expenditures in excess of $1,000 for computer, office equipment and leasehold improvements at cost.

Income taxes: The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes. However, in accordance with Section 4940(e) of the Code, the Foundation is subject to a federal excise tax of 2% of net investment income and net realized taxable gains on security transactions or 1% if the Foundation meets certain specified distribution requirements. Effective December 20, 2019, Section 4940(e) of the Code was amended to replace the dual rate determination with a single rate of 1.39%. The Foundation files Forms 990-PF in the U.S. federal jurisdiction and the state of Illinois.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained when challenged or when examined by the applicable tax authority. Examples of tax positions include the tax-exempt status of the Foundation, and various positions related to the potential sources of unrelated business taxable income. For the years ended December 31, 2019 and 2018, management has determined that there were no material uncertain tax positions.

Pending accounting pronouncements: In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies the process to determine whether contributions or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. The portion of the standard relevant to resource providers is effective for the Foundation's year ending December 31, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Foundation's year ending December 31, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

The Foundation is currently evaluating the impact of the adoption of these standards on its financial statements.

Subsequent events: Management has evaluated subsequent events through July 14, 2020, the date the financial statements were available to be issued.

Note 2. Liquidity and Availability

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts. At December 31, 2019 and 2018, the following financial assets could readily be made available to meet general expenditures within one year:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	$ 215,574	$ 956,281
Investments	189,131,929	163,239,848
Dividends and interest receivable	411,185	360,967
Total financial assets	189,758,688	164,557,096
Less amounts not available to be used within one year:		
Investments in non-liquid securities	(15,659,620)	(15,154,236)
Total financial assets available within one year	$ 174,099,068	$ 149,402,860

Note 3. Fair Value Measurements

The Foundation follows accounting guidance related to fair value measurements, which provides a framework for measuring fair value under US GAAP. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this guidance as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under this guidance are described below:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, or quoted prices in active markets.

Level 3. Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the years ended December 31, 2019 and 2018 there were no such transfers.

Note 3. Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. For the years ended December 31, 2019 and 2018, the application of valuation techniques applied to similar assets has been consistent with techniques used in previous years.

Investments in money market funds, domestic common stock, international securities and mutual funds: Valued at the last reported sales price on the day of valuation on a national securities exchange.

Investments in U.S. Government bonds/agencies, corporate bonds and preferred stock, taxable state and municipal bonds: Valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Investments in alternative investments (private equity funds, real estate funds): The fair value of private equity funds and real estate funds is based upon the applicable percentage ownership of the underlying funds' net assets as of the measurement date, as provided by the investment manager. This percentage ownership is the equivalent of net asset value (NAV), which is used as a practical expedient to estimating fair value. The fair value of the Foundation's investments in these funds generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the funds excluding any redemption charges that may apply.

The following tables summarize the Foundation's investments accounted for at fair value as of December 31, 2019 and 2018, using the fair value hierarchy:

	2019				
Description	Level 1	Level 2	Level 3	Measured at NAV[(a)]	Total
Money market funds	$ 4,456,446	$ -	$ -	$ -	$ 4,456,446
U.S. Government bonds/agencies	-	5,620,637	-	-	5,620,637
Corporate bonds and preferred stock	-	25,877,300	-	-	25,877,300
Taxable state and municipal bonds	-	13,752,071	-	-	13,752,071
Domestic common stock	95,905,187	-	-	-	95,905,187
International securities and mutual fund	27,217,799	-	-	-	27,217,799
Mutual fund - real estate	642,869	-	-	-	642,869
Alternative investments:					
Private equity funds	-	-	-	9,850,343	9,850,343
Real estate funds	-	-	-	5,809,277	5,809,277
	$ 128,222,301	$ 45,250,008	$ -	$ 15,659,620	$ 189,131,929

Note 3. Fair Value Measurements (Continued)

	2018				
Description	Level 1	Level 2	Level 3	Measured at NAV[(a)]	Total
Money market funds	$ 4,399,478	$ -	$ -	$ -	$ 4,399,478
U.S. Government bonds/agencies	-	93,912	-	-	93,912
Corporate bonds and preferred stock	-	24,848,694	-	-	24,848,694
Taxable state and municipal bonds	-	14,832,023	-	-	14,832,023
Domestic common stock	84,267,476	-	-	-	84,267,476
International securities and mutual fund	19,133,578	-	-	-	19,133,578
Mutual fund - real estate	510,451	-	-	-	510,451
Alternative investments:					
Private equity funds	-	-	-	9,726,336	9,726,336
Real estate funds	-	-	-	5,427,900	5,427,900
	$ 108,310,983	$ 39,774,629	$ -	$ 15,154,236	$ 163,239,848

(a) In accordance with Subtopic ASC 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following table summarizes investments measured at fair value based on NAV using the practical expedient as of December 31, 2019 and 2018:

	Fair Value		Unfunded	Redemption	Redemption
	2019	2018	Commitment	Frequency	Notice Period
Alternative investment funds:					
Private equity funds (b)	$ 9,850,343	$ 9,726,336	$ 9,690,173	N/A	N/A
Real estate funds (c)	5,809,277	5,427,900	3,156,855	N/A	N/A

(b) Private equity funds include funds focused on domestic and international buyouts, venture capital, secondary funds, equity and debt interests in underlying real estate assets and special situations. Special situations can consist of the restructuring of a company and corporate transactions such as spinoffs, share repurchases, security issuance/repurchase, asset sales and other catalyst-oriented situations. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

(c) Real estate funds include funds focused on investing in real estate credit investments in North America and Europe. These investments principally include senior and subordinated securities, including mortgages, B-notes and mezzanine loans, related to real estate-related assets. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

Note 4. Federal Excise Tax

The 2019 and 2018 current provision for federal excise tax amounts to 1% of net investment income (principally interest, dividends and any net realized gains, less expenses incurred in the production of income) as defined by the Internal Revenue Code.

The deferred federal excise tax payable as of December 31, 2019 and 2018, as reflected in the statements of financial position represents the tax effect of the temporary difference between the carrying value of investments for tax and financial reporting purposes. For the years ended December 31, 2019 and 2018, tax expense consisted of the following:

	2019	2018
Current	$ 107,709	$ 110,611
Deferred	208,043	(17,467)
	$ 315,752	$ 93,144

Note 5. Property and Equipment

Property and equipment, net, consisted of the following at December 31, 2019 and 2018:

	2019	2018
Leasehold improvements	$ 11,483	$ 11,483
Furniture and equipment	76,453	71,997
Website	28,400	-
Computer equipment	23,932	22,521
	140,268	106,001
Less accumulated depreciation	(77,893)	(69,677)
	$ 62,375	$ 36,324

For the years ended December 31, 2019 and 2018 depreciation expense totaled $8,216 and $5,485, respectively.

Note 6. Lease Obligations

The Foundation's lease for its office space provided for occupancy through December 31, 2018. In March 2018, the Foundation extended the office lease through May 31, 2024. Rent expense was $108,981 for 2019 and $97,130 for 2018. Future minimum rental payments under the lease are as follows:

2020	$ 98,850
2021	100,650
2022	102,450
2023	104,250
2024	43,750
	$ 449,950

Note 7. Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and management and general.

The financial statements report certain categories of expenses that are attributed to more than one function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort, as well as occupancy and certain other costs, which are allocated on a square footage basis.

Expenses by functional classification for years ended December 31, 2019 and 2018 consist of the following:

	2019		
	Program Services	Management and General	Total
Grants	$ 10,520,433	$ -	$ 10,520,433
Program support	238,346	-	238,346
Salaries and benefits	598,697	423,181	1,021,878
Occupancy	65,914	56,108	122,022
Professional services	-	401,870	401,870
Director expenses	-	122,240	122,240
Federal excise taxes	-	315,752	315,752
Other	46,715	27,553	74,268
Total	$ 11,470,105	$ 1,346,704	$ 12,816,809

	2018		
	Program Services	Management and General	Total
Grants	$ 8,359,111	$ -	$ 8,359,111
Program support	343,777	-	343,777
Salaries and benefits	472,301	481,124	953,425
Occupancy	59,764	49,500	109,264
Professional services	-	91,873	91,873
Director expenses	-	117,112	117,112
Federal excise taxes	-	93,144	93,144
Other	31,798	20,776	52,574
Total	$ 9,266,751	$ 853,529	$ 10,120,280

Note 8. Risks and Uncertainties

The Foundation’s investment portfolio is exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Foundation's overall exposure to market risk. The Foundation attempts to control their exposure to market risk through various analytical monitoring techniques.

Credit risk: Credit risk arises primarily from the potential inability of counterparties to perform in accordance with the terms of a contract. The Foundation’s exposure to credit risk associated with counterparty nonperformance is limited to the current cost to replace all contracts in which the Foundation has a gain. Exchange-traded financial instruments generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements and the margin requirements of individual exchanges. The Foundation seeks to mitigate their exposure to this credit risk by placing their cash with major institutions.

Concentration of credit risk: The Foundation's managers currently invest with various managers and clearing brokers. In the event these counterparties do not fulfill their obligations, the Foundation may be exposed to risk. This risk of default depends on the creditworthiness of the counterparty to these transactions. The Foundation attempts to minimize this credit risk by monitoring the creditworthiness of the managers and clearing brokers.

Alternative investments and investments in funds: The managers of underlying investment entities in which the Foundation invests may utilize derivative instruments with off-balance-sheet risk. The Foundation’s exposure to risk is limited to the amount of its investment.

Note 9. Retirement Plan

Effective September 1, 2010, the Foundation adopted a SEP-IRA arrangement whereby the Foundation contributes 15% of eligible employees' compensation. For 2019 and 2018, the total contributions under the SEP-IRA arrangement was $118,878 and $120,024, respectively.