

**Illinois Children's Healthcare
Foundation**

**Financial Statements for the
Years Ended December 31, 2004 and 2003**

Illinois Children's Healthcare Foundation
Years Ended December 31, 2004 and 2003

Contents

| | <u>Reference</u> | <u>Page</u> |
|----------------------------------|------------------|-------------|
| Independent Auditor's Report | | 1 |
| Statements of Financial Position | Exhibit A | 2 |
| Statements of Activities | Exhibit B | 3 |
| Statements of Cash Flows | Exhibit C | 4 |
| Notes to Financial Statements | | 5-9 |

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Independent Auditor's Report

Board of Directors
Illinois Children's Healthcare Foundation
Hinsdale, Illinois

We have audited the accompanying statements of financial position of **Illinois Children's Healthcare Foundation** as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Illinois Children's Healthcare Foundation** as of December 31, 2004 and 2003, 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.

Blackman Kallick Bartelstein, LLP

April 15, 2005

Illinois Children's Healthcare Foundation

Statements of Financial Position

December 31, 2004 and 2003

| | <u>Assets</u> | |
|---|-----------------------------------|-----------------------|
| | <u>2004</u> | <u>2003</u> |
| Assets | | |
| Cash and cash equivalents | \$ 483,878 | \$ 125,134,721 |
| Accounts receivable | 1,774 | - |
| Refundable income taxes | - | 58,400 |
| Interest and dividends receivable | 225,805 | 79,413 |
| Prepaid expense and deposits | 3,099 | - |
| Investments, at fair value | 128,259,495 | - |
| Property and equipment, net | 35,184 | - |
| | <u>\$ 129,009,235</u> | <u>\$ 125,272,534</u> |
| | | |
| | <u>Liabilities and Net Assets</u> | |
| Liabilities | | |
| Accounts payable | \$ 7,347 | \$ 58,457 |
| Grants payable | 668,716 | - |
| Due to broker | 85,983 | - |
| | <u>762,046</u> | <u>58,457</u> |
| | | |
| Net Assets - Unrestricted | <u>128,247,189</u> | <u>125,214,077</u> |
| | | |
| Total Liabilities and Net Assets | <u>\$ 129,009,235</u> | <u>\$ 125,272,534</u> |

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

Illinois Children's Healthcare Foundation

Statements of Activities

Years Ended December 31, 2004 and 2003

| | 2004 | 2003 |
|--------------------------------------|-----------------------|-----------------------|
| Revenues | | |
| Investment income | | |
| Realized gains on investments | \$ 92,583 | \$ - |
| Unrealized gains on investments | 6,584,276 | - |
| Dividends and interest | 2,724,479 | 856,852 |
| Total Investment Income | 9,401,338 | 856,852 |
| Contributions | 2,906 | 124,600,000 |
| Total Revenues | 9,404,244 | 125,456,852 |
| Expenses | | |
| Advertising | 1,097 | - |
| Bank charges | 910 | 998 |
| Board meeting | 3,990 | 4,625 |
| Depreciation | 8,214 | - |
| Employee benefits | 42,215 | - |
| Executive search | - | 55,528 |
| Filing fees | - | 884 |
| Grants | 5,875,007 | - |
| Income taxes | 18,588 | 15,600 |
| Insurance | 6,356 | 1,850 |
| Investment consulting and fees | 94,734 | 75,000 |
| Membership fees | 15,400 | 900 |
| Miscellaneous | 6,684 | 3,523 |
| Postage, shipping and delivery | 2,586 | 207 |
| Printing and copying | 1,190 | 140 |
| Professional fees | 45,989 | 73,916 |
| Program consulting | - | 13,217 |
| Rent | 13,910 | - |
| Salaries and payroll taxes | 216,658 | - |
| Supplies | 5,813 | - |
| Telephone and utilities | 5,384 | - |
| Travel | 6,407 | 1,387 |
| | 6,371,132 | 247,775 |
| Change in Net Assets | 3,033,112 | 125,209,077 |
| Net Assets, Beginning of Year | 125,214,077 | 5,000 |
| Net Assets, End of Year | <u>\$ 128,247,189</u> | <u>\$ 125,214,077</u> |

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

Illinois Children's Healthcare Foundation

Statements of Cash Flows

Years Ended December 31, 2004 and 2003

| | 2004 | 2003 |
|--|----------------------|-----------------------|
| Cash Flows from Operating Activities | | |
| Increase in net assets | \$ 3,033,112 | \$ 125,209,077 |
| Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities | | |
| Depreciation | 8,214 | - |
| Realized gains on investments | (92,583) | - |
| Unrealized gains on investments | (6,584,276) | - |
| (Increase) decrease in | | |
| Interest and dividends receivable | (148,166) | (79,413) |
| Refundable income taxes | 58,400 | (58,400) |
| Prepaid expenses and deposits | (3,099) | - |
| (Decrease) increase in | | |
| Grants payable | 668,716 | |
| Accounts payable | (51,110) | 58,457 |
| Due to broker | 85,983 | - |
| | <u>(3,024,809)</u> | <u>125,129,721</u> |
| Net Cash (Used in) Provided by Operating Activities | | |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (43,398) | - |
| Proceeds from sale of investment securities | 60,215,025 | - |
| Purchases of investment securities | (181,797,661) | - |
| | <u>(121,626,034)</u> | <u>-</u> |
| Net Cash Used in Investing Activities | | |
| Net (Decrease) Increase in Cash and Cash Equivalents | (124,650,843) | 125,129,721 |
| Cash and Cash Equivalents, Beginning of Year | <u>125,134,721</u> | <u>5,000</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 483,878</u> | <u>\$ 125,134,721</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash payments for taxes | <u>\$ 18,550</u> | <u>\$ 74,000</u> |

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2004 and 2003

Note 1 - Nature of Operations

Illinois Children's Healthcare Foundation (the Foundation) is a corporation that was organized in December 2002 under the Illinois Not-for-Profit Corporation Act. The Foundation was funded in the approximate amount of \$124,600,000 through a settlement reached in a legal dispute between the Illinois Attorney General's office and an Illinois insurance company.

The Foundation was organized to operate exclusively for the children of Illinois through charitable, educational, scientific and literary purposes, including the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

The Foundation's efforts are directed toward the following broad areas:

- 1) Providing for public education and advocacy on a variety of child health issues
- 2) Funding research related to children's health
- 3) Providing specific healthcare services for underserved children
- 4) Working to treat and/or prevent the illnesses that impact children's healthcare overall

Specific funding areas will be identified during each grant cycle and communicated to potential applicants through a "Request for Proposals" (RFP) or other process.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

These financial statements report net assets separately by class of net assets.

The sole class of net assets is defined as follows:

Unrestricted - amounts that are currently available for use in the foundation's operations

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2004 and 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Foundation considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Foundation maintains its cash and cash equivalents with two financial institutions which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents. In 2003, the entire balance was invested in a Northern Trust Government Fund money market fund.

Investments

All of the Foundation's investments are held at five financial institutions. Investments are carried at fair market value and are valued based on closing prices on the last business day of the year. Changes in fair market value are reported in the Statements of Activities. Realized gains are calculated based on actual cost using specific identification.

Federal Income Taxes

The Foundation is a not-for-profit corporation exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Foundation is treated as a private foundation for the purpose of certain excise taxes. Accordingly, the Foundation is subject to either a 1 or 2 percent excise tax on its net investment income based on the amount of distributions made during the year.

Depreciation

Property and equipment are valued at cost. The Foundation's policy is to capitalize items with a useful life of one year or more and a value of \$500 or more. These assets are depreciated over their useful lives, using the straight-line method.

| | <u>Years</u> |
|-------------------------------|--------------|
| Computer software | 3 |
| Office and computer equipment | 5 |
| Office furniture | 7 |

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2004 and 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Management Estimates

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

Note 3 - Investments

Investments are carried at fair value, determined from quoted market prices as of year-end. Investments, including investment concentrations of 10% or more of total investments, consist of the following:

| | <u>2004</u> |
|---------------------------------|------------------------------|
| NTGI US Market Capital | |
| Equity Index mutual fund | \$ 55,096,847 |
| Other equity mutual funds | 16,210,482 |
| PIMCO Pacific Management | |
| Fixed income mutual fund | 31,273,128 |
| NTGI Aggregate Bond | |
| Index fixed income mutual fund | 14,244,945 |
| Other fixed income mutual funds | 5,158,283 |
| International equities | <u>6,275,810</u> |
| | <u><u>\$ 128,259,495</u></u> |

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2004 and 2003

Note 4 - Property and Equipment

| | <u>2004</u> |
|--------------------------------------|------------------|
| Computer software | \$ 18,379 |
| Office and computer equipment | 12,793 |
| Office furniture | <u>12,226</u> |
| | 43,398 |
| Accumulated depreciation | <u>(8,214)</u> |
| Total Property and Equipment, Net | <u>\$ 35,184</u> |

Note 5 - Grants Payable

The Foundation has approved future commitments in the amount of \$668,716 for the year ended December 31, 2004. The Foundation reserves the right to cancel a grant at any time if it determines that the organization receiving the grant is not administering the project and grant funds in accordance with the proposal approved by the Foundation's board. However, the Foundation has determined that it is highly unlikely that these grants will not be awarded. As of December 31, 2004, \$409,540 are payable within one year and \$259,176 are payable within two years.

Note 6 - Federal Excise Taxes and Minimum Required Distributions

In accordance with the applicable provisions of the Tax Reform Act of 1969, the Foundation is subject to an excise tax on interest, dividends and realized gains, as defined in the Act. Accordingly, federal excise tax expense for the years ended December 31, 2004 and 2003 was estimated to be \$18,588 and \$15,600, respectively.

In addition, the Tax Reform Act of 1969 requires that certain minimum distributions be made in accordance with a specific formula. The Foundation has made the required distributions during both 2004 and 2003.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2004 and 2003

Note 7 - Lease

The Foundation has entered into a lease for its office facilities effective in April 2004. The lease agreement was subsequently amended in March 2005. Rent expense for 2004 and 2003 was \$13,910 and \$0, respectively.

The following is a schedule by year of future minimum rental payments required under operating leases that have an initial or remaining noncancelable lease term in excess of one year as of December 31, 2004:

| | | |
|---------------------------------|----|-----------------------|
| Year Ending December 31: | | |
| 2005 | \$ | 20,327 |
| 2006 | | 27,269 |
| 2007 | | 27,269 |
| 2008 | | 27,612 |
| 2009 | | <u>13,977</u> |
| Total Minimum Payments Required | \$ | <u><u>116,454</u></u> |

Note 8 - Employee Benefit Plans

The Foundation sponsors a Saving Incentive Match Plan for Employees (SIMPLE) IRA defined contribution plan. The IRS allows SIMPLE plans for employers with 100 or fewer employees who have received \$5,000 or more in compensation during the preceding year. The plan calls for matching employer contributions of up to 2% of income for employees that elect to defer compensation. The plan also calls for employer nonelective contributions of 2%, regardless of whether elective deferrals are made. To enter the plan, employees have a six-month waiting period from the date of hire. Employees may defer up to \$9,000, or \$10,500 if over age 50. Contributions for the years ended December 31, 2004 and 2003 were \$850 and \$0, respectively.

The Foundation also sponsors a 457 plan for executive employees. There are no other eligibility requirements. The plan calls for discretionary nonelective contributions in any amount as approved by the Board of Directors. Contributions for the years ended December 31, 2004 and 2003 were \$12,000 and \$0, respectively.