

**Illinois Children's
Healthcare Foundation**

**Financial Statements for the
Years Ended December 31, 2005 and 2004**

Illinois Children's Healthcare Foundation

Years Ended December 31, 2005 and 2004

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

Blackman Kallick Bartelstein LLP
10 South Riverside Plaza
9th Floor
Chicago, IL 60606

Phone 312/207-1040
Fax 312/207-1066

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, 2005 and 2004, 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, 2005 and 2004, 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 13, 2006

Illinois Children's Healthcare Foundation

Statements of Financial Position

December 31, 2005 and 2004

	<u>Assets</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	\$ 608,762	\$ 483,878
Accounts receivable	910	1,774
Interest and dividends receivable	247,745	225,805
Prepaid expense and deposits	1,099	3,099
Investments, at fair value	128,764,075	128,259,495
Investments under deferred compensation	22,878	-
Property and equipment, net	39,163	35,184
	<u>\$ 129,684,632</u>	<u>\$ 129,009,235</u>
Total Assets		
	<u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable	\$ 19,540	\$ 7,347
Grants payable	259,176	668,716
Deferred compensation	22,878	-
Due to broker	-	85,983
	<u>301,594</u>	<u>762,046</u>
Total Liabilities		
Unrestricted Net Assets	<u>129,383,038</u>	<u>128,247,189</u>
Total Liabilities and Net Assets	<u>\$ 129,684,632</u>	<u>\$ 129,009,235</u>

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

Illinois Children's Healthcare Foundation

Statements of Activities

Years Ended December 31, 2005 and 2004

	2005	2004
Revenues		
Investment income		
Realized gains on investments	\$ 851,561	\$ 92,583
Unrealized gains on investments	3,191,497	6,584,276
Dividends and interest	3,425,511	2,724,479
Total Investment Income	7,468,569	9,401,338
Contributions	1,938	2,906
Total Revenues	7,470,507	9,404,244
Expenses		
Grants	5,544,552	5,875,007
Salaries and payroll taxes	300,800	215,310
Investment consulting and fees	207,758	94,734
Professional fees	70,194	40,923
Employee benefits	47,142	42,215
Income taxes	41,289	18,588
Rent	25,477	13,910
Contributions	18,373	6,760
Travel	14,173	6,407
Depreciation	12,008	8,214
Board and committee meetings	8,746	3,990
Telephone and utilities	8,399	5,384
Insurance	6,393	6,356
Software maintenance	5,827	4,474
Staff development	4,829	6,414
Printing and copying	4,500	1,190
Supplies	3,934	5,813
Miscellaneous	3,802	3,120
Membership fees	2,474	8,640
Postage, shipping and delivery	2,231	2,586
Advertising and website	1,757	1,097
Total Expenses	6,334,658	6,371,132
Change in Net Assets	1,135,849	3,033,112
Unrestricted Net Assets, Beginning of Year	128,247,189	125,214,077
Unrestricted Net Assets, End of Year	\$ 129,383,038	\$ 128,247,189

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

Illinois Children's Healthcare Foundation

Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities		
Increase in net assets	\$ 1,135,849	\$ 3,033,112
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Depreciation	12,008	8,214
Realized gains on investments	(851,561)	(92,583)
Unrealized gains on investments	(3,191,497)	(6,584,276)
(Increase) decrease in		
Accounts receivable	(21,076)	(148,166)
Refundable income taxes	-	58,400
Prepaid expenses and deposits	2,000	(3,099)
Increase (decrease) in		
Grants payable	(409,540)	668,716
Accounts payable	12,193	(51,110)
Due to broker	(85,983)	85,983
Net Cash Used in Operating Activities	<u>(3,397,607)</u>	<u>(3,024,809)</u>
Cash Flows from Investing Activities		
Capital expenditures	(15,987)	(43,398)
Proceeds from sale of investment securities	18,546,313	60,215,025
Purchases of investment securities	<u>(15,007,835)</u>	<u>(181,797,661)</u>
Net Cash Provided by (Used in) Investing Activities	<u>3,522,491</u>	<u>(121,626,034)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	124,884	(124,650,843)
Cash and Cash Equivalents, Beginning of Year	<u>483,878</u>	<u>125,134,721</u>
Cash and Cash Equivalents, End of Year	<u>\$ 608,762</u>	<u>\$ 483,878</u>
Supplemental Disclosure of Cash Flow Information:		
Cash payments for taxes	<u>\$ 27,930</u>	<u>\$ 18,550</u>

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

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2005 and 2004

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

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.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments

All of the Foundation's investments are held at two 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.

The Foundation's investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statements of financial position.

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% 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

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.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2005 and 2004

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>2005</u>	<u>2004</u>
NTGI US Market Capital Equity Index mutual fund	\$ 58,977,553	\$ 55,096,847
Other equity mutual funds	24,454,053	16,210,482
PIMCO Pacific Management fixed income mutual fund	22,237,090	31,273,128
NTGI Aggregate Bond Index fixed income mutual fund	11,322,379	14,244,945
Other fixed income mutual funds	5,295,152	5,158,283
International equities	6,477,848	6,275,810
	<u>\$ 128,764,075</u>	<u>\$ 128,259,495</u>

Note 4 - Property and Equipment

	<u>2005</u>	<u>2004</u>
Computer software	\$ 24,757	\$ 18,379
Office and computer equipment	16,763	12,793
Office furniture	17,865	12,226
	59,385	43,398
Accumulated depreciation	<u>(20,222)</u>	<u>(8,214)</u>
Total Property and Equipment, Net	<u>\$ 39,163</u>	<u>\$ 35,184</u>

Note 5 - Grants Payable

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, 2005 and 2004, \$259,176 and \$668,716, respectively, of grants approved in prior years are payable in future years.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2005 and 2004

Note 6 - Federal Excise Taxes and Minimum Required Distributions

In accordance with the applicable provisions of the Tax Reform Act of 1969 (the Act), 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, 2005 and 2004 was estimated to be \$41,442 and \$18,588, respectively.

In addition, the Act requires that certain minimum distributions be made in accordance with a specific formula. The Foundation has made the required distributions during both 2005 and 2004.

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 2005 and 2004 was \$25,477 and \$13,910, 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 terms in excess of one year as of December 31, 2005:

Year Ending December 31:	
2006	\$ 27,269
2007	27,269
2008	27,612
2009	<u>13,977</u>
Total Minimum Payments Required	<u>\$ 96,127</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, 2005 and 2004 were \$3,000 and \$850, respectively.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2005 and 2004

Note 8 - Employee Benefit Plans (Continued)

The Foundation also sponsors a 457(b) plan for executive employees. There are no other eligibility requirements. The plan calls for discretionary nonelective contributions as approved by the Board of Directors. The amounts will be maintained on the Foundation's books in a designated account and will remain the sole property of the Foundation and be available to satisfy the claims of all general creditors of the Foundation. Contributions for the years ended December 31, 2005 and 2004 were \$10,000 and \$12,000, respectively.

Note 9 - Reclassification

For comparability, the 2004 financial statements reflect reclassifications where appropriate to conform to the financial statement presentation used in 2005.