

**Illinois Children's  
Healthcare Foundation**

**Financial Statements for the  
Years Ended December 31, 2007 and 2006**

**Illinois Children's Healthcare Foundation**  
Years Ended December 31, 2007 and 2006

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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, 2007 and 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Illinois Children's Healthcare Foundation's** internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and 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, 2007 and 2006, 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, LLP*

May 22, 2008

**Illinois Children's Healthcare Foundation**

Statements of Financial Position

December 31, 2007 and 2006

	<u>Assets</u>	
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,515,753	\$ 672,635
Accounts receivable	-	1,100
Interest and dividends receivable	646,555	258,133
Prepaid expense and deposits	2,324	2,063
Investments, at fair value	140,992,632	140,135,038
Investments under deferred compensation	32,841	30,647
Property and equipment, net	18,712	26,425
	<u>\$ 145,208,817</u>	<u>\$ 141,126,041</u>
<b>Total Assets</b>		
	<u>\$ 145,208,817</u>	<u>\$ 141,126,041</u>
	<u>Liabilities and Net Assets</u>	
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 103,351	\$ 20,123
Grants payable	5,124,345	239,787
Deferred compensation	32,841	30,647
	<u>5,260,537</u>	<u>290,557</u>
<b>Total Liabilities</b>		
	5,260,537	290,557
<b>Unrestricted Net Assets</b>	<u>139,948,280</u>	<u>140,835,484</u>
	139,948,280	140,835,484
<b>Total Liabilities and Net Assets</b>	<u>\$ 145,208,817</u>	<u>\$ 141,126,041</u>
	<u>\$ 145,208,817</u>	<u>\$ 141,126,041</u>

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

**Illinois Children's Healthcare Foundation**

Statements of Activities

Years Ended December 31, 2007 and 2006

	2007	2006
<b>Revenues</b>		
Investment income		
Realized gains on investments	\$ 11,938,100	\$ 5,044,372
Unrealized (loss) gain on investments	(8,950,866)	9,346,276
Dividends and interest	4,583,526	3,888,072
Total Investment Income	7,570,760	18,278,720
Contributions	3,163	3,200
Total Revenues	7,573,923	18,281,920
<b>Expenses</b>		
Grants	7,538,427	6,073,875
Grants returned	(182,041)	(215,830)
Salaries and payroll taxes	346,067	356,304
Investment consulting and fees	327,289	249,487
Excise taxes	162,063	86,684
Professional fees	83,789	76,480
Employee benefits	48,842	43,121
Rent	31,776	31,199
Contributions	24,561	30,745
Travel	21,569	30,187
Software maintenance	10,380	6,650
Depreciation	10,003	14,308
Board and committee meetings	9,163	9,056
Telephone and utilities	6,514	6,067
Insurance	6,162	6,202
Miscellaneous	4,305	4,785
Supplies	3,699	4,936
Postage, shipping and delivery	3,434	2,820
Staff development	1,945	970
Membership fees	1,469	1,873
Advertising and website	1,000	1,747
Printing and copying	711	7,808
Total Expenses	8,461,127	6,829,474
<b>Change in Net Assets</b>	(887,204)	11,452,446
<b>Unrestricted Net Assets, Beginning of Year</b>	140,835,484	129,383,038
<b>Unrestricted Net Assets, End of Year</b>	<b>\$ 139,948,280</b>	<b>\$ 140,835,484</b>

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

## Illinois Children's Healthcare Foundation

## Statements of Cash Flows

Years Ended December 31, 2007 and 2006

	2007	2006
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (887,204)	\$ 11,452,446
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	10,003	14,308
Realized gains on investments	(11,938,100)	(5,044,372)
Unrealized loss (gain) on investments	8,950,866	(9,346,276)
Increase in		
Receivables	(387,322)	(10,578)
Prepaid expenses and deposits	(261)	(964)
Increase (decrease) in		
Grants payable	4,884,558	(19,389)
Accounts payable	83,228	583
	<u>715,768</u>	<u>(2,954,242)</u>
Net Cash Provided by (Used in) Operating Activities		
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(2,290)	(1,570)
Proceeds from sale of investment securities	48,248,545	9,447,324
Purchases of investment securities	(46,118,905)	(6,427,639)
	<u>2,127,350</u>	<u>3,018,115</u>
Net Cash Provided by Investing Activities		
<b>Net Increase in Cash and Cash Equivalents</b>	2,843,118	63,873
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>672,635</u>	<u>608,762</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,515,753</u>	<u>\$ 672,635</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash payments for taxes	<u>\$ 83,500</u>	<u>\$ 90,000</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, 2007 and 2006

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#### **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, while broadly defined by its Articles of Incorporation, have been focused generally on children's oral health, mental health and developmental screening. The organization has primarily funded initiatives that enhance and expand the availability and delivery of services, increase the eligible workforce and communicate the importance of proper healthcare.

Each year, specific funding areas are identified and communicated to potential applicants. Most funding is generated and authorized through a "Request for Proposal" process. In addition, the Foundation will consider other grant requests throughout the year that fit within the criteria allowed for funding.

#### **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, 2007 and 2006

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Investments

The fair value of the Foundation's investments, other than the bank common trust funds, is based upon quoted market prices. The fair value of the Foundation's investments in bank common trust funds, which are classified as alternative investments, are estimated by the bank based primarily upon quoted market prices of the underlying securities. Any securities for which no current market quotation is readily available are valued at fair value as determined in good faith by Northern Trust. These investments are highly liquid as substantially all of the investments of the bank common trust funds are marketable securities.

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, 2007 and 2006

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Recent Accounting Pronouncement

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157 "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands financial disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007. Other than additional disclosure requirements, management believes the adoption of SFAS No. 157 will not have a significant impact on the Foundation's financial statements.

### Note 3 - Investments

Investments, including investment concentrations of 10% or more of total investments, consist of the following:

	<u>2007</u>	<u>2006</u>
Bank Common Trust Funds		
NTGI US Market Capital Equity Index mutual fund	\$ 73,089,145	\$ 66,718,032
Other equity fund	7,000,000	-
NTGI Aggregate Bond Index fixed income mutual fund	-	<u>11,228,277</u>
Total Bank Common Trust Funds	80,089,145	77,946,309
Other		
PIMCO Pacific Management fixed income mutual fund	25,222,921	23,125,011
Other fixed income mutual funds	16,620,616	5,639,162
Other equity mutual funds	13,181,791	13,322,706
Mutual funds - Real estate	5,878,159	7,231,986
International equities	-	7,905,550
Domestic equities	-	<u>4,964,314</u>
	<u><u>\$ 140,992,632</u></u>	<u><u>\$ 140,135,038</u></u>

Realized gains resulting from Bank Common Trust Fund investments were \$3,607,427 and \$1,674,434 for 2007 and 2006, respectively. Unrealized gains resulting from Bank Common Trust Fund investments were \$827,812 and \$5,971,943 for 2007 and 2006, respectively.

## Illinois Children's Healthcare Foundation

### Notes to Financial Statements

Years Ended December 31, 2007 and 2006

#### Note 4 - Property and Equipment

	<u>2007</u>	<u>2006</u>
Computer software	\$ 25,702	\$ 25,702
Office and computer equipment	18,309	17,388
Office furniture	<u>19,234</u>	<u>17,865</u>
	63,245	60,955
Accumulated depreciation	<u>(44,533)</u>	<u>(34,530)</u>
Total Property and Equipment, Net	<u><u>\$ 18,712</u></u>	<u><u>\$ 26,425</u></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, 2007 and 2006, \$5,124,345 and \$239,787, respectively, of grants approved in prior years are payable in future years.

#### 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, 2007 and 2006 was estimated to be \$162,083 and \$86,699, 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 2007 and 2006. The 2007 required distributions were met with the use of a "set-side" under Internal Revenue Code section 4942(g).

## Illinois Children's Healthcare Foundation

### Notes to Financial Statements

Years Ended December 31, 2007 and 2006

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#### 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 2007 and 2006 was \$31,776 and \$31,199, 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, 2007:

Year Ending December 31:		
	2008	\$ 27,612
	2009	<u>13,997</u>
Total Minimum Payments Required		<u>\$ 41,609</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 \$10,000, or \$12,500 if over age 50. Contributions for the years ended December 31, 2007 and 2006 were \$6,919 and \$7,616, respectively.

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, 2007 and 2006 were \$0 and \$5,000, respectively. Subsequent to year end, the assets of the plan have been distributed to the participant.