

**Illinois Children's
Healthcare Foundation**

**Financial Statements for the
Years Ended December 31, 2008 and 2007**



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Illinois Children's Healthcare Foundation

Years Ended December 31, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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

June 25, 2009

Illinois Children's Healthcare Foundation

Statements of Financial Position

December 31, 2008 and 2007

			<u>Assets</u>	
			2008	2007
Assets				
Cash		\$	1,122,567	\$ 2,605,556
Interest and dividends receivable			202,730	646,555
Prepaid expense and deposits			18,740	2,324
Investments, at fair value			94,394,004	141,902,829
Investments under deferred compensation			-	32,841
Property and equipment, net			10,569	18,712
			<u>10,569</u>	<u>18,712</u>
	Total Assets		<u>\$ 95,748,610</u>	<u>\$ 145,208,817</u>
			<u>Liabilities and Net Assets</u>	
Liabilities				
Accounts payable and accrued expenses		\$	10,038	\$ 103,351
Grants payable			5,676,698	5,124,345
Deferred compensation			-	32,841
			<u>-</u>	<u>32,841</u>
	Total Liabilities		5,686,736	5,260,537
			<u>90,061,874</u>	<u>139,948,280</u>
Unrestricted Net Assets				
	Total Liabilities and Net Assets		<u>\$ 95,748,610</u>	<u>\$ 145,208,817</u>

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

Illinois Children's Healthcare Foundation

Statements of Activities

Years Ended December 31, 2008 and 2007

	2008	2007
Revenues		
Investment (loss) income		
Realized (losses) gains on investments	\$ (3,430,216)	\$ 11,938,100
Change in unrealized losses on investments	(40,377,863)	(8,950,866)
Dividends and interest	4,315,884	4,583,526
Total Investment (Loss) Income	(39,492,195)	7,570,760
Contributions	1,000	3,163
Total Revenues	(39,491,195)	7,573,923
Expenses		
Grants	9,659,280	7,538,427
Grants returned	(153,147)	(182,041)
Salaries and payroll taxes	297,022	346,067
Professional fees	242,679	83,789
Investment consulting and fees	121,838	327,289
Excise taxes	41,166	162,063
Contributions	40,390	24,561
Rent and rental agreements	32,603	31,776
Travel and meetings	29,103	21,569
Employee benefits	25,443	48,842
Board and committee meetings	10,639	9,163
Software maintenance	8,753	10,380
Postage, shipping and delivery	7,226	3,434
Telephone and utilities	6,364	6,514
Insurance	6,139	6,162
Supplies	4,876	3,699
Membership fees	1,749	1,469
Advertising and website	-	1,000
Printing and copying	834	711
Depreciation	8,143	10,003
Miscellaneous	4,111	6,250
Total Expenses	10,395,211	8,461,127
Change in Net Assets	(49,886,406)	(887,204)
Unrestricted Net Assets, Beginning of Year	139,948,280	140,835,484
Unrestricted Net Assets, End of Year	<u>\$ 90,061,874</u>	<u>\$ 139,948,280</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (49,886,406)	\$ (887,204)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	8,143	10,003
Realized losses (gains) on investments	3,430,216	(11,938,100)
Change in unrealized losses on investments	40,377,863	8,950,866
(Increase) decrease in		
Interest and dividends receivables	443,825	(387,322)
Prepaid expenses and deposits	(16,416)	(261)
Increase (decrease) in		
Grants payable	552,353	4,884,558
Accounts payable and accrued expenses	<u>(93,313)</u>	<u>83,228</u>
 Net Cash (Used in) Provided by Operating Activities	 <u>(5,183,735)</u>	 <u>715,768</u>
 Cash Flows from Investing Activities		
Capital expenditures	-	(2,290)
Proceeds from sale of investment securities	23,648,831	48,248,545
Purchases of investment securities	<u>(19,948,085)</u>	<u>(46,451,032)</u>
 Net Cash Provided by Investing Activities	 <u>3,700,746</u>	 <u>1,795,223</u>
 Net (Decrease) Increase in Cash	 (1,482,989)	 2,510,991
 Cash, Beginning of Year	 <u>2,605,556</u>	 <u>94,565</u>
 Cash, End of Year	 <u><u>\$ 1,122,567</u></u>	 <u><u>\$ 2,605,556</u></u>
 Supplemental Disclosure of Cash Flow Information:		
Cash payments for taxes	<u><u>\$ 12,000</u></u>	<u><u>\$ 83,500</u></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, 2008 and 2007

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 Foundation 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

The Foundation maintains its cash with one financial institution, 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.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Effective January 1, 2008, the Foundation partially adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but may require some entities to change their measurement practices.

In February 2008, the Financial Accounting Standards Board (FASB) deferred the effective date of FAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Foundation will complete its adoption of FAS 157 for these assets and liabilities in 2009.

The Foundation's partial adoption of FAS 157 in 2008 did not have a significant effect on the Foundation's financial position or results of operations.

Investments

The Foundation's investments are reported at fair value. Investment (loss) income, including net realized and unrealized losses (gains), is reflected in the statement of activities as a (decrease) increase in net assets. Interest and dividend income is recorded on the accrual basis.

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.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Note 3 - Fair Value Measurements

FAS 157 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 as of the measurement date. FAS 157 describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. The standard does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based upon the inputs to the valuation technique:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 3 - Fair Value Measurements (Continued)

- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The Foundation currently uses no Level 3 inputs.

The following table sets forth by level within the fair value hierarchy the Foundation's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2008. As required by FAS 157, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels.

	Fair Values as of December 31, 2008	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bank Common Trust Funds				
NTGI U.S. Market Capital Equity Index mutual fund	\$ 31,443,925	\$ -	\$ 31,443,925	\$ -
NTGI World Equity Index mutual fund	3,709,493	-	3,709,493	-
MFB Northern Institutional Funds	10,479,104		10,479,104	
Mutual Funds				
PIMCO Pacific Management fixed income mutual fund	19,119,982	19,119,982	-	-
Fontegra Funds Inc. fixed income mutual fund	13,118,304	13,118,304	-	-
Equity mutual funds	12,668,321	12,668,321	-	-
Real estate mutual fund	3,854,875	3,854,875	-	-
Total	\$ 94,394,004	\$ 48,761,482	\$ 45,632,522	\$ -

Level 1 Inputs

Estimated fair values for the Foundation's fixed income, equity and real estate mutual funds were based on quoted market prices.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 3 - Fair Value Measurements (Continued)

Level 2 Inputs

Investments in bank common trust funds are highly liquid since the common trust funds invest mostly in marketable securities. As a result, the estimated fair value of the bank common trust funds is based primarily on observable market inputs and does not require significant judgment by the Foundation's management in the assessment of fair value. To measure the fair value of investments in bank common trusts, management maximized the use of observable inputs and minimized the use of unobservable inputs. Whenever available, management obtained quoted prices in active markets for identical assets as of the balance sheet date to measure underlying investment securities at fair value. The Foundation's management generally obtained these market price data from exchange or dealer markets.

Note 4 - Investments

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

	<u>2008</u>	<u>2007</u>
Bank Common Trust Funds		
NTGI U.S. Market Capital Equity Index mutual fund	\$ 31,443,925	\$ 73,089,145
NTGI World Equity Index mutual fund	3,709,493	7,000,000
MFB Northern Institutional funds	10,479,104	910,197
	<u>45,632,522</u>	<u>80,999,342</u>
Mutual Funds		
PIMCO Pacific Management fixed income mutual fund	19,119,982	25,222,921
Fontegra Funds Inc. fixed income mutual fund	13,118,304	16,620,616
Equity mutual funds	12,668,321	13,181,791
Real estate mutual fund	3,854,875	5,878,159
	<u>\$ 94,394,004</u>	<u>\$ 141,902,829</u>

Realized (losses) gains resulting from Bank Common Trust Fund investments were \$(4,555,572) and \$3,607,427 for 2008 and 2007, respectively. Change in unrealized losses resulting from Bank Common Trust Fund investments were \$(27,379,146) and \$(827,812) for 2008 and 2007, respectively.

Illinois Children's Healthcare Foundation

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 5 - Property and Equipment

	<u>2008</u>	<u>2007</u>
Computer software	\$ 25,702	\$ 25,702
Office and computer equipment	18,309	18,309
Office furniture	<u>19,234</u>	<u>19,234</u>
	63,245	63,245
Accumulated depreciation	<u>(52,676)</u>	<u>(44,533)</u>
Total Property and Equipment, Net	<u><u>\$ 10,569</u></u>	<u><u>\$ 18,712</u></u>

Note 6 - 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, 2008 and 2007, \$5,676,698 and \$5,124,345, respectively, of grants approved in prior years are payable in future years.

Note 7 - 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, 2008 and 2007 was estimated to be \$41,166 and \$162,063, 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 2008 and 2007. 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, 2008 and 2007

Note 8 - 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 2008 and 2007 was \$27,668 and \$27,269, respectively.

The current lease expires on June 30, 2009; however, management is in negotiations for a new operating lease at a different location. Total minimum payments required through June 30, 2009 is \$13,997.

Note 9 - 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, 2008 and 2007 were \$3,770 and \$6,919, 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. There were no contributions made for the years ended December 31, 2008 and 2007. During 2008, the assets of the plan have been distributed to the participant.

Note 10 - Reclassifications

For comparability, the 2007 financial statements reflect reclassifications where appropriate to conform to the financial statement presentation used in 2008.