

**ILLINOIS CHILDREN'S
HEALTHCARE FOUNDATION**

FINANCIAL STATEMENTS
December 31, 2009 and 2008

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Illinois Children's Healthcare Foundation
Oak Brook, Illinois

We have audited the accompanying statement of financial position of Illinois Children's Healthcare Foundation (the Foundation) as of December 31, 2009, and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Foundation as of December 31, 2008, were audited by other auditors whose report dated June 25, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Illinois Children's Healthcare Foundation as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP
Crowe Horwath LLP

Chicago, Illinois
June 24, 2010

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash	\$ 599,514	\$ 1,122,567
Interest and dividends receivable	45,693	202,730
Prepaid expense and deposits	6,878	18,740
Investments, at fair value	111,086,699	94,394,004
Investments under deferred compensation	5,000	-
Property and equipment, net	<u>36,747</u>	<u>10,569</u>
 Total assets	 <u>\$ 111,780,531</u>	 <u>\$ 95,748,610</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 11,481	\$ 10,038
Grants payable	1,598,007	5,676,698
Deferred compensation	<u>5,000</u>	<u>-</u>
 Total liabilities	 1,614,488	 5,686,736
 Unrestricted net assets	 <u>110,166,043</u>	 <u>90,061,874</u>
 Total liabilities and net assets	 <u>\$ 111,780,531</u>	 <u>\$ 95,748,610</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenue		
Investment return		
Realized gains (losses) on investments	\$ (5,054,306)	\$ (3,430,216)
Unrealized gains (losses) on investments	23,896,639	(40,377,863)
Dividends and interest	<u>3,425,577</u>	<u>4,315,884</u>
Total investment income (loss)	22,267,910	(39,492,195)
Contributions	<u>3,250</u>	<u>1,000</u>
Total revenue	<u>22,271,160</u>	<u>(39,491,195)</u>
Expenses		
Grants approved	1,425,597	1,451,687
Grants returned	(27,601)	(153,147)
Salaries and payroll taxes	346,407	297,022
Professional fees	101,811	242,679
Investment consulting and fees	85,777	121,838
Travel and meetings	38,224	29,103
Rent, moving costs and rental agreements	35,269	32,603
Excise taxes	33,090	41,166
Employee benefits	16,261	25,443
Board and committee meetings	11,566	10,639
Printing and copying	10,470	834
Depreciation	10,083	8,143
Postage, shipping and delivery	8,221	7,226
Software maintenance	8,048	8,753
Telephone and utilities	7,367	6,364
Small equipment	6,908	-
Supplies	6,804	4,876
Insurance	6,181	6,139
Contributions	30,790	40,390
Miscellaneous	3,554	4,111
Membership fees	<u>2,164</u>	<u>1,749</u>
Total expenses	<u>2,166,991</u>	<u>10,395,211</u>
Change in net assets	20,104,169	(49,886,406)
Unrestricted net assets, beginning of year	<u>90,061,874</u>	<u>139,948,280</u>
Unrestricted net assets, end of year	<u>\$ 110,166,043</u>	<u>\$ 90,061,874</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ 20,104,169	\$ (49,886,406)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	10,083	8,143
Realized losses on investments	5,054,306	3,430,216
Change in unrealized (gains) losses on investments	(23,896,639)	40,377,863
(Increase) decrease in		
Interest and dividends receivables	157,037	443,825
Prepaid expenses and deposits	6,862	(16,416)
Increase (decrease) in		
Grants payable	(4,078,691)	552,353
Accounts payable and accrued expenses	<u>6,443</u>	<u>(93,313)</u>
Net cash used in operating activities	<u>(2,636,430)</u>	<u>(5,183,735)</u>
 Cash flows from investing activities		
Capital expenditures	(36,261)	-
Proceeds from sale of investment securities	196,767,418	23,648,831
Purchases of investment securities	<u>(194,617,780)</u>	<u>(19,948,085)</u>
Net cash provided by investing activities	<u>2,113,377</u>	<u>3,700,746</u>
 Net decrease in cash	 (523,053)	 (1,482,989)
 Cash, beginning of year	 <u>1,122,567</u>	 <u>2,605,556</u>
 Cash, end of year	 <u>\$ 599,514</u>	 <u>\$ 1,122,567</u>
 Supplemental disclosure of cash flow information:		
Cash payments for taxes	<u>\$ 16,000</u>	<u>\$ 12,000</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

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 ensuring every child in Illinois has the opportunity to grow up healthy. To carry out this vision, the Foundation is currently focusing its efforts on children's oral health, mental health and innovative programming throughout the state of Illinois. 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 AND 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 unrestricted, which are amounts that are not donor restricted and 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.

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES BASIS OF ACCOUNTING (Continued)

Investments: The Foundation's investments are reported at fair value. Investment return, 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 has received a letter from the internal revenue service indicating that it 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.

Property and Equipment: 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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2009, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2009. Management has performed their analysis through May __, 2010, which is the date the financial statements were available to be issued.

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value is defined 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.

Generally accepted accounting standards establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

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.

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

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

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.

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.

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NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following tables 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, 2009 and 2008:

	December 31, 2009			
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Index mutual fund				
NTGI US Market Capital Equity Index mutual fund	\$ 325,756	\$ -	\$ 325,756	\$ -
NTGI World Equity Index mutual fund	5,083,155	-	5,083,155	-
MFB Northern Institutional Funds	1,994,911	-	1,994,911	-
Mutual Funds				
PIMCO Pacific Management fixed income mutual fund	11,261,275	11,261,275	-	-
Fontegra Funds Inc. fixed income mutual fund	7,928,567	7,928,567	-	-
Equity mutual funds	60,531,162	60,531,162	-	-
Vanguard Short term bond ETF	14,563,694	14,563,694	-	-
ISHARES Barclays TIPS bond fund	8,014,118	8,014,118	-	-
Vanguard Institutional money market fund	<u>1,384,061</u>	<u>1,384,061</u>	-	-
Total	<u>\$ 111,086,699</u>	<u>\$ 103,682,877</u>	<u>\$ 7,403,822</u>	<u>\$ -</u>

	December 31, 2008			
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Index mutual fund				
NTGI US 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	<u>3,854,875</u>	<u>3,854,875</u>	-	-
Total	<u>\$ 94,394,004</u>	<u>\$ 48,761,482</u>	<u>\$ 45,632,522</u>	<u>\$ -</u>

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
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NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Realized (losses) resulting from Bank Common Trust Fund investments were \$(10,438,672) and \$(4,555,572) for 2009 and 2008, respectively. Change in unrealized gains (losses) resulting from Bank Common Trust Fund investments were \$13,740,396 and \$(27,379,146) for 2009 and 2008, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

	<u>2009</u>	<u>2008</u>
Computer software	\$ 28,816	\$ 25,702
Office and computer equipment	35,173	18,309
Office furniture	<u>24,161</u>	<u>19,234</u>
	88,150	63,245
Accumulated depreciation	<u>(51,403)</u>	<u>(52,676)</u>
Total property and equipment, net	<u>\$ 36,747</u>	<u>\$ 10,569</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, 2009 and 2008, \$1,598,007 and \$5,676,698, 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, 2009 and 2008 was estimated to be approximately \$33,000 and \$41,000, 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 2009 and 2008. The 2008 required distributions were met with the use of a "set-side" under Internal Revenue Code Section 4942(g).

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
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NOTE 7 - LEASE

The Foundation has entered into a lease for its office facilities effective July 1, 2009. Term of the lease July 1, 2009 - October 31, 2014 with escalating rent payments each November 1. Rent expense for 2009 and 2008 was \$20,403 and \$27,668, respectively.

Total minimum payments required:

2010	\$	38,736
2011		39,838
2012		40,939
2013		42,041
2014		<u>35,799</u>
Total	\$	<u>197,353</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 3% of income for employees that elect to defer compensation. To enter the plan, employees have a six-month waiting period from the date of hire. Employees may defer up to the IRS limit for a given plan year. Contributions for the years ended December 31, 2009 and 2008 were \$5,193 and \$3,770, 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, 2009 and 2008 were \$5,000 and \$0. During 2008, the assets of the plan were distributed to a participant.

NOTE 9 - FUNCTIONAL EXPENSES

Functional expenses for the Foundation for the years ended December 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Program	\$ 1,778,636	\$ 9,909,377
General and administrative	<u>388,355</u>	<u>485,833</u>
Total expenses	<u>\$ 2,166,991</u>	<u>\$ 10,395,210</u>
