

**ILLINOIS CHILDREN'S
HEALTHCARE FOUNDATION**

FINANCIAL STATEMENTS
December 31, 2015 and 2014

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CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS.....	6

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Illinois Children's Healthcare Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Chicago, Illinois
July 13, 2016

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 1,594,754	\$ 576,414
Interest and dividends receivable	145,767	139,759
Prepaid expense and deposits	21,990	15,518
Investments, at fair value	127,262,025	136,865,044
Property and equipment, net	<u>10,494</u>	<u>13,900</u>
 Total assets	 <u>\$ 129,035,030</u>	 <u>\$ 137,610,635</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 236,494	\$ 191,056
Grants payable	<u>3,391,549</u>	<u>5,809,899</u>
 Total liabilities	 3,628,043	 6,000,955
 Unrestricted net assets	 <u>125,406,987</u>	 <u>131,609,680</u>
 Total liabilities and net assets	 <u>\$ 129,035,030</u>	 <u>\$ 137,610,635</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
STATEMENTS OF ACTIVITIES
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenue		
Investment return		
Dividends and interest	\$ 3,094,948	\$ 3,455,830
Realized gains on investments, net	13,432,266	2,489,965
Unrealized (losses) gains on investments, net	(17,923,610)	1,957,197
Investment fees	<u>(231,093)</u>	<u>(316,977)</u>
Total investment return	(1,627,489)	7,586,015
Contributions	<u>30</u>	<u>-</u>
Total revenue	<u>(1,627,459)</u>	<u>7,586,015</u>
Expenses		
Grants approved	3,215,216	4,325,079
Grants returned	(384)	(379)
Professional fees for evaluation and program consulting	285,606	351,250
Convening expense	13,361	17,850
Salaries and payroll taxes	503,383	474,235
Excise taxes	162,426	111,740
Professional fees	123,498	150,679
Rent	41,331	42,982
Employee benefits	70,033	38,525
Printing and copying costs	29,105	17,661
Travel and meetings	25,609	27,316
Contributions	22,154	18,778
Postage, shipping and delivery	9,863	9,195
Software maintenance	18,198	14,453
Board and committee meetings	25,583	10,826
Depreciation	5,331	6,565
Telephone	5,345	6,223
Insurance	7,147	6,823
Supplies	8,398	4,812
Membership dues	2,785	1,745
Miscellaneous	<u>1,246</u>	<u>1,619</u>
Total expenses	<u>4,575,234</u>	<u>5,637,977</u>
Change in net assets	(6,202,693)	1,948,038
Unrestricted net assets, beginning of year	<u>131,609,680</u>	<u>129,661,642</u>
Unrestricted net assets, end of year	<u>\$ 125,406,987</u>	<u>\$ 131,609,680</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (6,202,693)	\$ 1,948,038
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,331	6,565
Realized gains on investments	(13,432,266)	(2,489,965)
Change in unrealized (gains) losses on investments	17,923,610	(1,957,197)
(Increase) decrease in		
Interest and dividends receivable	(6,008)	(10,597)
Prepaid expenses and deposits	(6,472)	12,617
Increase (decrease) in		
Accounts payable and accrued expenses	45,438	131,303
Grants payable	<u>(2,418,350)</u>	<u>(762,156)</u>
Net cash used in operating activities	(4,091,410)	(3,121,392)
 Cash flows from investing activities		
Capital expenditures	(1,925)	(4,359)
Proceeds from sale of investment securities	39,463,483	14,062,947
Purchases of investment securities	<u>(34,351,808)</u>	<u>(11,394,224)</u>
Net cash provided by investing activities	<u>5,109,750</u>	<u>2,664,364</u>
 Net (decrease) increase in cash	1,018,340	(457,028)
 Cash, beginning of year	<u>576,414</u>	<u>1,033,442</u>
 Cash, end of year	<u>\$ 1,594,754</u>	<u>\$ 576,414</u>
 Supplemental disclosure of cash flow information		
Cash paid for taxes	<u>\$ 100,740</u>	<u>\$ 117,484</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1- NATURE OF OPERATIONS

Illinois Children's Healthcare Foundation (the Foundation) is a corporation that was organized as an exempt organization under Section 501(c)(3) of the Internal Revenue Code in December 2002. The Foundation was created through an action of then Attorney General Jim Ryan and an Illinois insurance carrier. This action and a settlement of approximately \$125 million established the only private foundation focused solely on the health needs of children of Illinois.

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.

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.

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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

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 revenue 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, 2015, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2015. Management has performed their analysis through July 13, 2016, which is the date the financial statements were available to be issued.

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 establish 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 and equity mutual funds were based on quoted market prices.

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

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Investments in indexed mutual funds are highly liquid since the funds invest mostly in marketable securities. The NTGI ex-US Index Fund invests in international common and preferred stock securities over a broad range of industries that approximate the overall performance of the MSCI All Country World ex-US Equity Index. The NTGI ACW IMI Index Fund invests in large, mid and small cap companies in the developed and emerging equity markets that approximate the overall performance of MSCI ACWI IMI. The Aberdeen Global Equity Fund invests in domestic and international common and preferred stock securities over a broad range of industries that approximate the overall performance of the MSCI World Index.

Fair values are initially based on valuations determined by the investment managers using audited net asset values ("NAV") as of their most recent audited financial statements. The NAVs of the investment funds are determined on the accrual basis of accounting in conformity with GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. The alternative investments held by the Foundation may all be redeemed at the NAV on a daily basis with a two-day redemption notice period (level 2 inputs).

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 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, 2015 and 2014:

	December 31, 2015			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Index mutual Fund				
NTGI ex-US Index Fund	\$ 17,603,029	\$ -	\$ 17,603,029	\$ -
NTGI ACW IMI Index Fund	24,727,664	-	24,727,664	-
MFB Northern Institutional Fund	605,853	605,853	-	-
Mutual Funds				
Metropolitan West Total				
Return Bond Fund	4,880,515	4,880,515	-	-
Fontegra Funds Inc. Fixed Income				
Mutual Fund	4,818,452	4,818,452	-	-
Equity mutual funds	45,137,306	45,137,306	-	-
Vanguard Total Bond Market				
Index Fund	29,489,206	29,489,206	-	-
	<u>\$ 127,262,025</u>	<u>\$ 84,931,332</u>	<u>\$ 42,330,693</u>	<u>\$ -</u>

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2014			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Index mutual Fund				
NTGI ex-US Index Fund	\$ 19,170,804	\$ -	\$ 19,170,804	\$ -
NTGI ACW IMI Index Fund	13,461,172	-	13,461,172	-
MFB Northern Institutional Fund	964,126	964,126	-	-
Aberdeen Global Equity Fund	12,520,626	-	12,520,626	-
Mutual Funds				
Metropolitan West Total				
Return Bond Fund	5,009,191	5,009,191	-	-
Fontegra Funds Inc. Fixed Income				
Mutual Fund	4,952,212	4,952,212	-	-
Equity mutual funds	50,660,253	50,660,253	-	-
Vanguard Total Bond Market				
Index Fund	<u>30,126,660</u>	<u>30,126,660</u>	<u>-</u>	<u>-</u>
	<u>\$ 136,865,044</u>	<u>\$ 91,712,442</u>	<u>\$ 45,152,602</u>	<u>\$ -</u>

NOTE 4 - PROPERTY AND EQUIPMENT

	<u>2015</u>	<u>2014</u>
Computer software	\$ 30,772	\$ 30,772
Office and computer equipment	39,100	37,175
Office furniture	<u>41,278</u>	<u>41,278</u>
	111,150	109,225
Accumulated depreciation	<u>(100,656)</u>	<u>(95,325)</u>
Total property and equipment, net	<u>\$ 10,494</u>	<u>\$ 13,900</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, 2015 and 2014, \$3,391,549 and \$5,809,899, respectively, of grants approved in prior years are payable in future years.

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 5 - GRANTS PAYABLE (Continued)

Amounts payable at December 31,	
2016	\$ 2,112,464
2017	955,868
2018	283,217
2019	40,000
2020	<u>-</u>
	<u>\$ 3,391,549</u>

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, 2015 and 2014, was estimated to be approximately \$163,000 and \$112,000, 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 2015 and 2014.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Foundation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of December 31, 2015 and 2014.

Due to its tax-exempt status, the Foundation is not subject to U.S. federal income tax or state income tax. The Foundation is no longer subject to examination by U.S. federal or state taxing authorities for years before December 31, 2012. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

NOTE 7 - LEASE

The Foundation has entered into a lease for its office facilities effective July 1, 2009. The term of the lease is from July 1, 2009 to October 31, 2016, with escalating rent payments each November 1. Rent expense for 2015 and 2014 was \$41,331 and \$42,982, respectively.

Total minimum payments required:

2016	\$ <u>35,075</u>
Total	\$ <u>35,075</u>

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 8 - FUNCTIONAL EXPENSES

Functional expenses for the Foundation for the years ended December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Program	\$ 4,082,695	\$ 5,181,627
General and administrative	<u>492,539</u>	<u>456,350</u>
Total expenses	<u>\$ 4,575,234</u>	<u>\$ 5,637,977</u>