

**ILLINOIS CHILDREN'S
HEALTHCARE FOUNDATION**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

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Independent Auditors' Report

Board of Directors
Illinois Children's Healthcare Foundation

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, 2020 and 2019, and the related statements of activities, functional expenses, 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.

Auditors' 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 entity'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 entity'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.

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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation has adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Ostrow Reisin Berk & Abrams, Ltd.

July 8, 2021

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31,	2020	2019
ASSETS		
Cash	\$ 1,164,267	\$ 891,626
Investments	162,114,489	154,242,350
Prepaid expenses	48,487	49,584
Property and equipment, net	4,220	7,413
Total assets	\$ 163,331,463	\$ 155,190,973
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 88,898	\$ 32,570
Grants payable	8,181,737	10,014,025
Total liabilities	8,270,635	10,046,595
Net assets:		
Without donor restrictions	155,060,828	145,144,378
Total liabilities and net assets	\$ 163,331,463	\$ 155,190,973

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF ACTIVITIES

Years ended December 31,	2020	2019
Revenue:		
Net investment income	\$ 21,373,231	\$ 28,731,125
Expenses:		
Program services	10,908,402	14,589,478
Management and general	548,379	453,911
Total expenses	11,456,781	15,043,389
Change in net assets	9,916,450	13,687,736
Net assets without donor restrictions, beginning of year	145,144,378	131,456,642
Net assets without donor restrictions, end of year	\$ 155,060,828	\$ 145,144,378

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31,	2020			2019		
	Program services	Management and general	Total	Program services	Management and general	Total
Grants approved	\$ 9,717,254		\$ 9,717,254	\$ 13,311,026		\$ 13,311,026
Salaries and related costs	924,261	\$ 161,036	1,085,297	865,250	\$ 126,139	991,389
Professional fees	241,823	99,604	341,427	344,176	113,955	458,131
Excise taxes		179,143	179,143		46,181	46,181
Rent		59,793	59,793		57,889	57,889
Office expenses and related costs	19,964	40,921	60,885	23,024	85,308	108,332
Meetings	5,100	4,689	9,789	46,002	20,779	66,781
Depreciation		3,193	3,193		3,660	3,660
Total expenses	\$ 10,908,402	\$ 548,379	\$ 11,456,781	\$ 14,589,478	\$ 453,911	\$ 15,043,389

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended December 31,	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 9,916,450	\$ 13,687,736
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,193	3,660
Net realized and unrealized gains on investments	(18,460,203)	(24,995,474)
Decrease in operating asset:		
Prepaid expenses	1,097	33,373
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	56,328	(26,135)
Grants payable	(1,832,288)	7,660,112
Net cash used in operating activities	(10,315,423)	(3,636,728)
Cash flows from investing activities:		
Proceeds from sale of investments	48,501,707	4,501,851
Purchases of investments	(37,913,643)	(1,236,438)
Net cash provided by investing activities	10,588,064	3,265,413
Net increase (decrease) in cash	272,641	(371,315)
Cash, beginning of year	891,626	1,262,941
Cash, end of year	\$ 1,164,267	\$ 891,626
Supplemental disclosure of non-cash information:		
Cash paid during the year for taxes	\$ 180,000	\$ 7,000

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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 in 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 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.

2. Summary of significant accounting policies

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 net assets without donor restrictions, which are amounts that are not donor-restricted and are currently available for use in the Foundation's operations.

Recent accounting pronouncement:

Effective January 1, 2020, the Foundation adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance helps determine whether a contribution made is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The change in accounting principle was adopted on a modified prospective basis in 2020. The adoption of this standard did not materially impact the financial statements of the Foundation.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Cash:

The Foundation maintains its cash with one financial institution with balances which at times may exceed federally-insured limits. The Foundation had approximately \$1,023,000 and \$681,000 in excess of federally-insured limits at December 31, 2020 and 2019, respectively. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments:

The Foundation's investments are stated at fair value. Net investment income (loss) includes realized and unrealized gains and losses, and interest and dividend income which is recorded on the accrual basis, and net of external investment expenses.

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.

Expense allocation:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related costs which are allocated on the basis of time and effort. All other expenses are directly allocated.

Grants payable:

Grants payable represents unconditional grants that have been authorized prior to year-end, but remain unpaid as of the statements of financial position date. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied.

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Subsequent events:

Management has reviewed and evaluated subsequent events through July 8, 2021, the date the financial statements were available to be issued.

3. COVID-19

COVID-19 has not had a negative impact on the Foundation's financial position. During the year ended December 31, 2020, the Foundation awarded additional grants to help support organizations in need as a result of the global pandemic. Economic uncertainties resulting from COVID-19 may negatively impact the Foundation's investments, although such potential impact is unknown at this time.

4. 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.

Investments are measured at fair value in accordance with the 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 hierarchy 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 mutual funds and exchange-traded funds were based on quoted market prices.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data. The Foundation uses no 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 uses no Level 3 inputs.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Fair value measurements (continued)

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, 2020 and 2019:

December 31,	2020	2019
	Level 1	
Investments:		
Vanguard Federal Money Market Fund	\$ 1,057,601	\$ 1,236,438
Vanguard bond mutual funds	36,945,924	36,868,085
Vanguard equity mutual funds	111,663,434	116,137,827
Vanguard equity exchange-traded fund	12,447,530	
Total investments	\$ 162,114,489	\$ 154,242,350

Net investment income is comprised of the following for the years ended December 31, 2020 and 2019:

Years ended December 31,	2020	2019
Dividends and interest	\$ 3,081,425	\$ 3,908,946
Realized gains	10,033,888	934,560
Unrealized gains	8,426,315	24,060,914
Investment fees	(168,397)	(173,295)
Net investment income	\$ 21,373,231	\$ 28,731,125

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Grants payable

Grants payable in more than one year are initially recognized at fair value using present value methods at the time the grants are made. Discount rates range from .10% to .36%. The Foundation reserves the right to cancel a grant at any time if it determines that the grantee is not administering the project and grant funds in accordance with the grant proposal approved by the Foundation's Board of Directors. Unconditional grants payable at December 31, 2020 are payable in the following periods:

<u>Year ending December 31:</u>	<u>Amount</u>
2021	\$ 1,439,017
2022	2,272,075
2023	2,000,000
2024	1,500,000
2025	1,000,000
	8,211,092
<u>Less discount to present value</u>	<u>(29,355)</u>
<u>Grants payable, net of discount</u>	<u>\$ 8,181,737</u>

6. Conditional grants

The Foundation provides grants to various organizations to fund initiatives that enhance and expand the availability and delivery of services, increase the eligible workforce and communicate the importance of proper healthcare. Some of the grants include conditions or milestones that must be met by the grantee. The Foundation reserves the right to terminate a grant if a grantee does not meet the required milestones. Conditional grants as of December 31, 2020, with milestones related to construction, staffing and implementation of services, are payable as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2021	\$ 563,844
2022	1,331,444
2023	1,072,737
2024	1,072,736
<u>Total</u>	<u>\$ 4,040,761</u>

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Conditional grants (continued)

Conditional grants at December 31, 2019 were \$1,000,000 of which \$500,000 was expensed in 2020 and the remaining \$500,000 is included in conditional grants as of December 31, 2020.

7. Federal excise taxes and minimum required distributions

The Foundation is exempt from federal income taxes and is classified as a private foundation under Section 501 of the Internal Revenue Code (IRC). The Foundation is subject to an excise tax (equal to 1.39% in 2020 and 1% or 2% in 2019) on its net investment income, including realized gains, as defined by the IRC, based on the amount of distributions made during the year. The Foundation has made the required distributions during 2020 and 2019.

Deferred tax liabilities or assets may arise because the accrual basis is used for recognition of investment income, gains and losses, but the cash basis is used for tax purposes. Taxes are payable when dividends, interest, and other investment income are received in cash and when gains are realized by selling the investments. Realized losses can be used to offset any gains realized in the same year. The excess of realized losses over realized gains cannot be carried back or carried forward to offset gains in prior or future tax years. Thus, because there are net unrealized gains on the investments held by the Foundation, the tax expense may exceed the taxes payable and would result in a deferred federal excise tax liability. There was no deferred federal excise tax liability recorded by the Foundation as of December 31, 2020 and 2019.

The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. For the years ended December 31, 2020 and 2019, there were no tax interest or penalties recorded in the statements of activities.

8. Lease

The Foundation leases its office space under a lease agreement through February 2022.

Total minimum lease payments are required as follows:

Year ending December 31:	Amount
2021	\$ 59,397
2022	10,091
Total	\$ 69,488

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Liquidity and availability

The Foundation's financial assets available for general expenditures within one year of the statements of financial position date are as follows:

December 31,	2020	2019
Cash	\$ 1,164,267	\$ 891,626
Investments	162,114,489	154,242,350
Financial assets available to meet cash needs for general expenditures within one year	\$ 163,278,756	\$ 155,133,976

As part of the Foundation's liquidity management, the Foundation invests its financial assets to be available as its general expenditures, liabilities and other obligations come due. Management and the Board of Directors monitor liquidity throughout the year by reviewing financial information, including budget to actual reports as well as grants approved, paid, and payable.