ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

YEAR ENDED DECEMBER 31, 2022

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Independent Auditors' Report

Board of Directors
Illinois Children's Healthcare Foundation

Opinion

We have audited the accompanying financial statements of Illinois Children's Healthcare Foundation, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Illinois Children's Healthcare Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Illinois Children's Healthcare Foundation adopted ASU 2016-02, *Leases (Topic 842)* effective January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Illinois Children's Healthcare Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Illinois Children's Healthcare Foundation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Illinois Children's Healthcare Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Ostrow Reisin Berk & Abrams, Ltd.

June 26, 2023

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2022	
ASSETS	
Cash	$ 3,643,314
Investments	126,209,343
Investments, employee benefit plan	69,530
Operating lease right-of-use assets	416,383
Prepaid expenses	34,463
Property and equipment, net	23,747
Total assets	$ 130,396,780
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable and accrued expenses	$ 111,134
Grants payable	4,747,075
Deferred compensation	69,530
Operating lease liabilities	428,828
Total liabilities	5,356,567
Net assets:	
Without donor restrictions	125,040,213
Total liabilities and net assets	$ 130,396,780

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENT OF ACTIVITIES

Year ended December 31, 2022	
Revenue:	
Net investment loss	$ (29,144,683)
Other	204,430
Total revenue	(28,940,253)
Expenses:	
Program services	11,837,202
Management and general	712,424
Total expenses	12,549,626
Change in net assets	(41,489,879)
Net assets without donor restrictions, beginning of year	166,530,092
Net assets without donor restrictions, end of year	$ 125,040,213

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2022	Program services	Management and general	Total
Grants approved	$ 10,509,426		$ 10,509,426
Salaries and related costs	910,482	$ 185,674	1,096,156
Professional fees	379,490	292,825	672,315
Excise taxes		86,941	86,941
Office expenses and related costs	37,804	146,984	184,788
Total expenses	$ 11,837,202	$ 712,424	$ 12,549,626

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENT OF CASH FLOWS

Year ended December 31, 2022	
Cash flows from operating activities:	
Change in net assets	$ (41,489,879)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,892
Net realized and unrealized losses on investments	32,028,339
Amortization of operating lease right-of-use assets	44,276
Deferred compensation	69,530
Increase in operating asset:	
Prepaid expenses	(647)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	28,545
Grants payable	(1,478,517)
Operating lease liabilities	(31,831)
Net cash used in operating activities	(10,828,292)
Cash flows from investing activities:	
Proceeds from sale of investments	13,532,221
Purchases of investments	(845,791)
Purchases of investments, employee benefit plan	(69,530)
Purchases of property and equipment	(23,811)
Net cash provided by investing activities	12,593,089
Net increase in cash	1,764,797
Cash, beginning of year	1,878,517
Cash, end of year	$ 3,643,314

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF CASH FLOWS CONTINUED)

Year ended December 31, 2022		
Supplemental disclosure of non-cash information:		
Cash paid during the year for taxes	$	127,058
Supplemental cash flows information related to leases is as follows:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	39,711

See 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 statewide 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 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 available for use in the Foundation's operations.

Recent accounting pronouncement:

Effective January 1, 2022, the Foundation adopted ASU 2016-02, *Leases (Topic 842)* using the modified retrospective transition method. This guidance requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The Foundation elected the package of practical expedients to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any existing leases. In addition, the Foundation elected to use hindsight to determine the lease terms of existing leases and assess impairment of right-of-use assets at the adoption date.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncement: (continued)

The adoption of this standard resulted in the recognition of operating lease right-of-use assets and operating lease liabilities totaling $460,659 at January 1, 2022.

Leases:

The Foundation determines whether a contract is a lease at the contract's inception. Identified leases are subsequently measured, classified, and recognized at lease commencement as either a finance lease or an operating lease. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease based on the estimated present value of lease payments to be made over the lease term. The Foundation's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise the option.

The lease payments are discounted to present value using a discount rate based on a term commensurate with the lease terms at the lease commencement date. The Foundation elected to use a risk-free discount rate for all classes of underlying assets. The portion of payments on operating lease liabilities related to interest, along with the amortization of the related right-of-use assets, is recognized as operating lease cost. Operating lease cost is recognized on a straight-line basis over the lease term. The Foundation elected to treat the lease and non-lease components of a lease as a single lease component for all classes of underlying assets.

Cash:

The Foundation maintains its cash with one financial institution with balances which, at times, may exceed federally-insured limits. The Foundation had approximately $3,398,000 in excess of federally-insured limits at December 31, 2022. The Foundation believes that it is not exposed to any significant credit risk on cash.

Investments:

The Foundation's investments are stated at fair value. Net investment income or 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 statement of financial position.

2. Summary of significant accounting policies (continued)

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 represent unconditional grants that have been authorized prior to year-end, but remain unpaid as of the statement 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events:

Management has reviewed and evaluated subsequent events through June 26, 2023, the date the financial statements were available to be issued.

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.

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 fund 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.

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, 2022:

December 31, 2022		Level 1
Investments:		
Vanguard Federal Money Market Fund	$	845,792
Vanguard LifeStrategy Growth Fund		69,530
Vanguard bond mutual funds		30,710,179
Vanguard equity mutual funds		85,034,858
Vanguard equity exchange-traded fund		9,618,514
Total investments	$	126,278,873

3. Fair value measurements (continued)

Net investment loss is comprised of the following for the year ended December 31, 2022:

Year ended December 31, 2022	
Dividends and interest	$ 3,072,939
Realized gains	3,433,397
Unrealized losses	(35,461,736)
Investment fees	(189,283)
Net investment loss	$ (29,144,683)

4. 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. The Foundation has determined that the calculation of a present value discount as of December 31, 2022 is not significant. 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, 2022 are payable in the following periods:

Year ending December 31:	Amount
2023	$ 2,247,075
2024	1,500,000
2025	1,000,000
Total	$ 4,747,075

5. 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, 2022, with milestones related to construction, staffing and implementation of services, are payable as follows:

Year ending December 31:	Amount
2023	$ 4,832,219
2024	1,147,563
Total	$ 5,979,782

Conditional grants at December 31, 2021 were $10,693,616 of which $6,265,883 was expensed in 2022 and the remaining $4,427,733 represents conditional grants as of December 31, 2022.

6. 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% 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 2022.

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. Unrealized gains on the investments held by the Foundation may result in tax expense that exceeds 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, 2022.

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 year ended December 31, 2022, there were no tax interest or penalties recorded in the statement of activities.

7. Leases

The Foundation leases its office space and equipment under operating leases expiring through April 2030. The office lease includes one option to renew for five years which the Foundation is reasonably certain to exercise. Operating lease cost totaled $52,156 for the year ended December 31, 2022.

Future minimum payments on the operating leases are as follows:

Year ending December 31:	Amount
2023	$ 59,663
2024	61,039
2025	62,415
2026	62,861
2027	62,837
Thereafter	151,818
Total lease payments	460,633
Less imputed interest	31,805
Present value of operating lease liabilities	$ 428,828

As of December 31, 2022, the weighted-average remaining lease term was 7.3 years and the weighted-average discount rate was 1.71%.

8. Liquidity and availability

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

December 31, 2022	
Cash	$ 3,643,314
Investments	126,209,343
Investments, employee benefit plan	69,530
Total financial assets	129,922,187
Less amount not available to be used within one year:	
Investments, employee benefit plan	69,530
Financial assets available to meet general expenditures within one year	$ 129,852,657

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.

9. Retirement plan

The Foundation has a Section 401(k) defined-contribution plan covering all eligible employees. The Foundation matches contributions equal to 6% of employee compensation. The plan also permits an employer discretionary contribution equal to 2% of employee compensation. Employer contributions were $52,331 for the year ended December 31, 2022.

The Foundation started a Section 457(f) plan during the year ended December 31, 2022. Employees covered under the plan are designated by the Board of Directors. The plan permits employer discretionary contributions without limitation. Employer contributions were $70,000 for the year ended December 31, 2022 and is included in salaries and related costs on the statement of functional expenses.

The Section 457(f) plan results in deferred compensation for the participant(s) of the plan. The plan calls for payments to be made to the sole participant when the participant is vested in the plan. The employee is vested at the earliest of termination of employment with the employer, January 15, 2031, termination of the plan or change in control of the employer.