

PASQUESI
SHEPPARD LLC

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS
GRANT HEALTHCARE FOUNDATION

We have audited the accompanying statements of financial position of GRANT HEALTHCARE FOUNDATION (Foundation) as of December 31, 2010 and 2009 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 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 Grant Healthcare Foundation as of December 31, 2010 and 2009 and the changes in its activities and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Pasquesi Sheppard LLC

Pasquesi Sheppard LLC

July 25, 2011

GRANT HEALTHCARE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	<u>ASSETS</u>	
	<u>2010</u>	<u>2009</u>
ASSETS:		
Cash, including money market funds of \$91,779 and \$549,086, respectively	\$ 155,733	\$ 688,847
Investments	17,701,743	16,757,211
Prepaid expenses	-	1,367
Equipment, net	290	468
Cash surrender value of life insurance	468,024	469,236
Total assets	<u>\$ 18,325,790</u>	<u>\$ 17,917,129</u>
	<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:		
Accrued expenses	\$ 42,793	\$ 69,250
Deferred compensation	279,596	360,421
Loss reserves	180,000	180,000
Total liabilities	<u>\$ 502,389</u>	<u>\$ 609,671</u>
NET ASSETS:		
Unrestricted	\$ 17,716,205	\$ 17,200,262
Temporarily restricted	107,196	107,196
Total net assets	<u>\$ 17,823,401</u>	<u>\$ 17,307,458</u>
	<u>\$ 18,325,790</u>	<u>\$ 17,917,129</u>

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

GRANT HEALTHCARE FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>UNRESTRICTED NET ASSETS</u>		
REVENUE:		
Interest and dividends	\$ 352,380	\$ 374,833
Gain (loss) on sale of investments	572,972	(1,864,370)
Unrealized gain on investments	1,145,739	4,537,145
Miscellaneous	(18,512)	2,176
	<u>\$ 2,052,579</u>	<u>\$ 3,049,784</u>
Total (loss) revenue		
EXPENSES:		
Grants	\$ 1,200,000	\$ 1,192,592
Payroll taxes	8,729	9,879
Investment management fees	108,986	62,288
Professional fees	7,446	8,250
Interest expense	28,834	47,429
Office expense	170,291	229,834
Excise tax	12,172	(24,203)
Depreciation	178	337
	<u>\$ 1,536,636</u>	<u>\$ 1,526,406</u>
Total expenses		
Increase in unrestricted net assets	\$ 515,943	\$ 1,523,378
NET ASSETS AT BEGINNING OF YEAR	<u>17,307,458</u>	<u>15,784,080</u>
NET ASSETS AT END OF YEAR	<u>\$ 17,823,401</u>	<u>\$ 17,307,458</u>

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

GRANT HEALTHCARE FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 515,943	\$ 1,523,378
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities —		
Depreciation	178	337
(Gain) loss on sale of investments	(572,972)	1,864,370
Unrealized gain on investments	(1,145,739)	(4,537,145)
Changes in operating assets and liabilities —		
Prepaid expenses	1,367	(1,367)
Accrued expenses	(26,457)	69,250
Cash surrender value	1,212	(3,202)
Deferred compensation	(80,825)	(74,838)
Net cash used for operating activities	<u>\$ (1,307,293)</u>	<u>\$ (1,159,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	\$ (5,465,716)	\$ (12,495,062)
Proceeds from sale of investments	<u>6,239,895</u>	<u>14,008,226</u>
Net cash provided by investing activities	<u>\$ 774,179</u>	<u>\$ 1,513,164</u>
Net increase (decrease) in cash and money market funds	\$ (533,114)	\$ 353,947
Cash and money market at beginning of year	<u>688,847</u>	<u>334,900</u>
Cash and money market at end of year	<u><u>\$ 155,733</u></u>	<u><u>\$ 688,847</u></u>

SUPPLEMENTARY INFORMATION:

Cash paid during the year for interest	<u><u>\$ 28,834</u></u>	<u><u>\$ 47,429</u></u>
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The accompanying notes are an integral part of these financial statements.

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(1) DESCRIPTION OF THE FOUNDATION:

The Foundation was organized in 1883 as Grant Hospital of Chicago for the purpose of operating a hospital. In 1994 the Foundation sold substantially all of the assets and certain liabilities of the hospital. Effective on January 1, 1999 the Foundation changed its mission to that of a private foundation and adopted the name Grant Healthcare Foundation (Foundation). The mission of the Foundation is to continue the tradition of providing healthcare services to the people of Chicago. The Foundation is an Illinois not-for-profit corporation.

(2) ACCOUNTING POLICIES AND PRACTICES:

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The following is a summary of the major accounting policies and practices of the Foundation which affect significant elements of the accompanying financial statements:

Basis of Presentation —

For internal accounting and financial reporting purposes, net assets and related revenues and expenses of the Foundation are classified into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted based upon the existence or absence of donor imposed restrictions.

Unrestricted Net Assets, include all resources of the Foundation representing the expendable funds available for support of Foundation operations.

Temporarily Restricted Net Assets are comprised of funds which are restricted by donors for specific purposes or time periods. Temporarily restricted net assets as of December 31, 2010 and 2009 consist of specific healthcare services.

Permanently Restricted Net Assets include contributions which the donors have specified must be maintained in perpetuity. The related income may be expended for specific purposes or if none, for the general purpose of The Foundation. There are no permanently restricted net assets as of December 31, 2010 and 2009.

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Contributions —

The Foundation recognizes the full amount of the contributions, grants and bequests received in the year that they were made as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The Foundation reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, or a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support. Unrestricted contributions of long-lived assets and cash to acquire long-lived assets are treated as unrestricted when the acquired assets are placed in service. The Foundation records non-cash contributions at their estimated fair value at the date of the contribution.

Equipment —

Equipment is stated at cost or at estimated fair value at the date of gift if donated. Depreciation is computed on a straight-line basis over the estimate lives of five years. It is the Foundation's policy to expense equipment with an initial cost of less than \$250. Depreciation expense for the years ended December 31, 2010 and 2009 was \$178 and \$337, respectively. The cost of the equipment and depreciation are as follows at December 31:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 9,643	\$ 9,643
Less: Accumulated depreciation	<u>9,353</u>	<u>9,175</u>
	<u>\$ 290</u>	<u>\$ 468</u>

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Income Taxes -

The Foundation is exempt from Federal income taxes, except for unrelated business income and excise tax on investment income, under the provisions of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2010 and 2009. Effective January 1, 2009, management has adopted new accounting provisions which impose a threshold for determining when uncertain tax positions should be disclosed or recorded. The threshold now imposed for financial statement reporting generally is higher than the threshold imposed for claiming deductions in income tax returns. As a result of the implementation, the Foundation utilized the "more likely than not" criteria and determined that all of their tax positions meet that criteria. Therefore, the Foundation has not recorded any adjustments or disclosed any situations that arose from uncertain tax positions.

Fair Value Measurement -

Effective January 1, 2009 the Foundation adopted new accounting standards which provide a framework for measuring fair value. The standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal market for the asset or liability in a transaction between market participants on the measurement date. The standards establish a fair value hierarchy which gives highest priority to observable inputs (Level 1 and 2 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The fair value measurement level of the assets and liabilities within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The carrying value of cash, prepaid/accrued expenses, investments, cash surrender value and deferred compensation are a reasonable estimate of their fair value due to the short-term nature of these instruments.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Financial Instruments -

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash. The Foundation maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash.

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Use of Estimates in Preparing Financial Statements —

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

(3) INVESTMENTS:

Investments are carried at fair value (levels 1 and 2) in the accompanying financial statements. Fair values at December 31 were obtained from quoted market sources and are included in the financial statements as follows:

	<u>2010</u>	<u>2009</u>
Corporate stocks	\$ 5,344,695	\$ 5,508,142
Mutual funds	10,429,884	10,345,528
Partnerships	1,927,164	903,541
	<u>\$ 17,701,743</u>	<u>\$ 16,757,211</u>

(4) DEFERRED COMPENSATION:

Deferred compensation represents executive salary continuation agreements the Foundation entered into with three former executives of the hospital. The agreements call for annual payments through the year 2022 with interest charged at a rate of eight percent. The interest expense for 2010 and 2009 was \$28,834 and \$34,861, respectively. In connection with these agreements, the Foundation is the beneficiary of insurance policies on the lives of these former executives. The cash surrender value on these policies as of December 31, 2010 and 2009 were \$468,024 and \$469,236, respectively.

Future payments for the deferred compensation agreements are as follows:

<u>Year ending December 31</u>	
2011	\$ 87,291
2012	42,457
2013	16,794
2014	18,137
Thereafter	114,917
	<u>\$ 279,596</u>

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(5) LOSS RESERVES:

Since January 31, 1985, the Foundation's hospital operation has been partially self-insured for professional and general liability through the Chicago Hospital Risk Pooling Program (CHRPP). The Foundation made contributions to CHRPP while it was operating as a hospital. The maximum amount of loss that can be charged to the Foundation under the CHRPP program is a deductible of \$50,000 per occurrence. As of December 31, 2010 and 2009, the Foundation has open claims with no remaining deductible.

Prior to the Foundation's participation in CHRPP, the Foundation had various professional liability insurance policies. The primary insurance carrier for the Foundation for the period from February 1981 to January 1985 has suspended its entire business. The Foundation is unaware of any outstanding or potential claims for this period.

The Foundation is in the process of resolving an outstanding worker compensation claim. In connection with this claim, the Foundation has set up a reserve of \$180,000.

(6) SUBSEQUENT EVENTS:

The Foundation's management has performed an analysis of activities and transactions subsequent to December 31, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year then ended. Management has performed this analysis through July 25, 2011, the date which the financial statements were available to be issued.