

GRANT HEALTHCARE FOUNDATION

**FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

TOGETHER WITH AUDITORS' REPORT



REPORT OF INDEPENDENT AUDITORS

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, 2003 and 2002 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 accompanying financial statements present fairly, in all material respects, the financial position of Grant Healthcare Foundation as of December 31, 2003 and 2002 and the results of its activities and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Pasquesi Sheppard LLC

February 12, 2004

GRANT HEALTHCARE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2003 AND 2002

<u>ASSETS</u>		
	2003	2002
ASSETS:		
Cash, including money market funds of \$659,448 and \$477,204, respectively	\$ 779,706	\$ 595,383
Investments	25,773,725	23,355,690
Equipment, net	2,991	2,150
Cash surrender value of life insurance	495,994	525,370
	\$ 27,052,416	\$ 24,478,593
Total assets	\$ 27,052,416	\$ 24,478,593
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Deferred compensation	\$ 838,292	\$ 901,902
Loss reserves	180,000	180,000
	\$ 1,018,292	\$ 1,081,902
Total liabilities	\$ 1,018,292	\$ 1,081,902
NET ASSETS:		
Unrestricted	\$ 25,926,928	\$ 23,289,495
Temporarily restricted	107,196	107,196
	\$ 26,034,124	\$ 23,396,691
Total net assets	\$ 26,034,124	\$ 23,396,691
	\$ 27,052,416	\$ 24,478,593

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

GRANT HEALTHCARE FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
UNRESTRICTED NET ASSETS		
REVENUE:		
Interest and dividends	\$ 649,999	\$ 818,227
Loss on sale of investments	(279,030)	(867,003)
Unrealized gain (loss) on investments	4,096,632	(2,496,676)
Contributions	84,499	-
Miscellaneous	1,133	679
	<hr/>	<hr/>
Total revenue	\$ 4,553,233	\$ (2,544,773)
	<hr/>	<hr/>
EXPENSES:		
Grants	\$ 1,589,155	\$ 1,643,104
Payroll taxes	10,386	10,386
Investment management fees	60,911	66,793
Professional fees	9,045	21,683
Interest expense	72,152	76,864
Bond fees	10,608	11,491
Office expense	154,105	117,040
Excise tax	6,874	(2,635)
Depreciation	2,564	1,409
	<hr/>	<hr/>
Total expenses	\$ 1,915,800	\$ 1,946,135
	<hr/>	<hr/>
Decrease in unrestricted net assets	\$ 2,637,433	\$ (4,490,908)
	<hr/>	<hr/>
NET ASSETS AT BEGINNING OF YEAR	23,396,691	27,887,599
	<hr/>	<hr/>
NET ASSETS AT END OF YEAR	<u>\$ 26,034,124</u>	<u>\$ 23,396,691</u>

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

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

(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 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 2003 and 2002.

(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.

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 time periods. There are not permanently restricted net assets as of December 31, 2003 and 2002.

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

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 market value at the date of the contribution.

Equipment –

Equipment is stated at cost or at estimated fair market value at the date of gift if donated. Depreciation is computed on a straight-line basis over the estimate lives of five years. The cost of the equipment and depreciation are as follows at December 31:

	<u>2003</u>	<u>2002</u>
Equipment	\$ 7,787	\$ 7,464
Less: Accumulated depreciation	<u>4,796</u>	<u>5,314</u>
	<u>\$ 2,991</u>	<u>\$ 2,150</u>

GRANT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

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.

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 of assets and liabilities and disclosure of contingent assets and liabilities at 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.

(3) INVESTMENTS:

Investments are carried at approximate fair market value in the accompanying financial statements. Market values at December 31 were obtained from quoted market sources and are included in the financial statements as follows:

	<u>2003</u>	<u>2002</u>
Corporate stocks	\$17,701,696	\$12,924,294
U.S. Treasuries and U.S. Government Agencies	2,090,849	4,026,900
Corporate bonds	2,582,502	4,263,660
Mutual funds	3,398,678	2,140,836
	<u>\$25,773,725</u>	<u>\$23,355,690</u>

GRANT HEALTHCARE FOUNDATION

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DECEMBER 31, 2003 AND 2002

(4) DEFERRED COMPENSATION:

Deferred compensation represents executive salary continuation agreements the Foundation entered into with four 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 2003 and 2002 was \$72,152 and \$76,864, 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, 2003 and 2002 were \$495,994 and \$525,370, respectively.

Future payments for the deferred compensation agreements are as follows:

<u>Year ending December 31</u>	
2004	\$ 68,699
2005	74,195
2006	80,131
2007	86,542
Thereafter	<u>528,725</u>
	<u>\$ 838,292</u>

(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, 2003 and 2002, 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.