PASQUESI
SHEPPARD LLC
ACCOUNTANTS AND CONSULTANTS

GRANT HEALTHCARE FOUNDATION

FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

TOGETHER WITH INDEPENDENT
AUDITOR'S REPORT

PASQUESI
SHEPPARD LLC

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS
GRANT HEALTHCARE FOUNDATION

We have audited the accompanying financial statements of GRANT HEALTHCARE FOUNDATION (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 GRANT HEALTHCARE FOUNDATION as of December 31, 2012 and 2011, 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.

Pasquesi Sheppard LLC

Pasquesi Sheppard LLC

May 9, 2013

GRANT HEALTHCARE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
ASSETS:		
Cash, including money market funds of $64,072 and $110,617, respectively	$ 113,463	$ 262,295
Investments	15,788,312	15,274,076
Equipment, net	639	122
Cash surrender value of life insurance	448,953	489,065
Total assets	$ 16,351,367	$ 16,025,558

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES:		
Accrued expenses	$ 35,500	$ 154,624
Deferred compensation	149,848	192,305
Loss reserves	180,000	180,000
Total liabilities	$ 365,348	$ 526,929
NET ASSETS:		
Unrestricted	$ 15,878,823	$ 15,391,433
Temporarily restricted	107,196	107,196
Total net assets	$ 15,986,019	$ 15,498,629
Total liabilities and net assets	$ 16,351,367	$ 16,025,558

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

GRANT HEALTHCARE FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
UNRESTRICTED NET ASSETS		
REVENUE:		
Interest and dividends	$ 406,730	$ 417,218
Gain on sale of investments	330,492	233,008
Unrealized gain (loss) on investments	1,329,886	(1,359,815)
Miscellaneous	90	(38,116)
Total revenue (loss)	$ 2,067,198	$ (747,705)
EXPENSES:		
Grants	$ 1,228,063	$ 1,275,063
Payroll taxes	5,447	8,927
Investment management fees	75,403	74,162
Professional fees	16,865	27,223
Interest expense	15,384	22,506
Office expense	227,387	160,995
Excise tax	5,400	5,400
Foreign tax	5,723	2,623
Depreciation	136	168
Total expenses	$ 1,579,808	$ 1,577,067
Increase (decrease) in unrestricted net assets	$ 487,390	$ (2,324,772)
NET ASSETS AT BEGINNING OF YEAR	15,498,629	17,823,401
NET ASSETS AT END OF YEAR	$ 15,986,019	$ 15,498,629

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

GRANT HEALTHCARE FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 487,390	$ (2,324,772)
Adjustments to reconcile change in net assets to net cash used for operating activities —		
Depreciation	136	168
Gain on sale of investments	(330,492)	(233,008)
Unrealized (gain) loss on investments	(1,329,886)	1,359,815
Changes in operating assets and liabilities —		
Accrued expenses	(119,124)	111,831
Cash surrender value	40,112	(21,041)
Deferred compensation	(42,457)	(87,291)
Net cash used for operating activities	$ (1,294,321)	$ (1,194,298)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	$ (653)	$ -
Purchase of investments	(2,135,537)	(9,611,157)
Proceeds from sale of investments	3,281,679	10,912,017
Net cash provided by investing activities	$ 1,145,489	$ 1,300,860
Net increase (decrease) in cash and money market funds	$ (148,832)	$ 106,562
Cash and money market at beginning of year	262,295	155,733
Cash and money market at end of year	$ 113,463	$ 262,295

SUPPLEMENTARY INFORMATION

Cash paid during the year for interest	$ 15,384	$ 22,506

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

(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 (the 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 organization.

(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, 2012 and 2011, 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, 2012 and 2011.

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 estimated 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, 2012 and 2011, was $136 and $168, respectively. The cost of the equipment and depreciation are as follows at December 31:

	2012	2011
Equipment	$ 10,296	$ 9,643
Less: Accumulated depreciation	9,657	9,521
	$ 639	$ 122

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, 2012 and 2011. Management follows 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. 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. Additionally, there were no returns under review or open to review by taxing authorities in excess of statutory periods.

Fair Value Measurement —

The Foundation follows 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.

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.

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:

	2012	2011
Corporate stocks	$ 1,899,084	$ 5,490,361
Mutual funds	13,087,693	8,059,374
Partnerships	801,535	1,724,341
	$ 15,788,312	$ 15,274,076

(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 2012 and 2011 was $15,384 and $22,368, 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, 2012 and 2011, were $448,953 and $489,065, respectively.

Future payments for the deferred compensation agreements for the years ending December 31 are as follows:

2013	$ 16,794
2014	18,137
2015	19,588
2016	21,155
Thereafter	74,173
	$ 149,847

(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, 2012 and 2011, 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, 2012, 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 May 9, 2013, the date which the financial statements were available to be issued.