

The First Hospital Foundation

Financial Statements

December 31, 2008



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

Board of Directors The First Hospital Foundation

We have audited the accompanying statement of financial position of The First Hospital Foundation (the "Foundation") as of December 31, 2008 and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Foundation as of December 31, 2007 were audited by other auditors whose report dated April 29, 2008 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides 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 The First Hospital Foundation as of December 31, 2008 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
July 7, 2009

The First Hospital Foundation

Statements of Financial Position

December 31,

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 332,400	\$ 233,038
Investments	29,547,011	43,168,630
Prepaid expenses	1,889	2,635
Deposits	15,767	15,000
Furniture and equipment, net	<u>7,878</u>	<u>-</u>
	<u>\$ 29,904,945</u>	<u>\$ 43,419,303</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expense	\$ 31,156	\$ 10,869
Grants payable	<u>140,000</u>	<u>444,333</u>
Total Liabilities	171,156	455,202
 Unrestricted net assets	 <u>29,733,789</u>	 <u>42,964,101</u>
	<u>\$ 29,904,945</u>	<u>\$ 43,419,303</u>

See notes to financial statements

The First Hospital Foundation

Statements of Activities

Years Ended December 31,

	<u>2008</u>	<u>2007</u>
REVENUE		
Interest, dividends, and capital gain distributions	\$ 1,007,669	\$ 1,139,139
Net realized (loss) gain on investments	(2,494,018)	1,033,803
Allocation of net (losses) earnings from investments in partnerships	<u>(2,195,208)</u>	<u>646,315</u>
	(3,681,557)	2,819,257
Less investment advisory fees	<u>60,088</u>	<u>64,054</u>
Total Net Revenue	(3,741,645)	2,755,203
EXPENSES		
Grants	1,048,000	1,321,679
Administrative fees	115,918	91,435
Insurance	6,267	4,547
Professional fees	79,015	32,688
Rent	8,435	7,377
Filing fees	-	38,153
Dues and subscriptions	7,714	3,832
Office expenses	10,192	4,868
Depreciation	931	-
Miscellaneous expense	<u>5,919</u>	<u>11,864</u>
Total Expenses	<u>1,282,391</u>	<u>1,516,443</u>
Change in Net Assets Before Unrealized (Loss)		
Gain on Investments	<u>(5,024,036)</u>	<u>1,238,760</u>
Net unrealized (loss) gain on investments	<u>(8,206,276)</u>	<u>1,576,055</u>
Change in Net Assets	(13,230,312)	2,814,815
NET ASSETS		
Beginning of year	<u>42,964,101</u>	<u>40,149,286</u>
End of year	<u>\$ 29,733,789</u>	<u>\$ 42,964,101</u>

See notes to financial statements

The First Hospital Foundation

Statements of Cash Flows

Years ended December 31,

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (13,230,312)	\$ 2,814,815
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized loss (gain) on investments	2,494,018	(1,033,803)
Net unrealized loss (gain) on investments	8,206,276	(1,576,055)
Allocation of net losses (earnings) from investments in partnerships	2,195,208	(646,315)
Depreciation	931	-
Net change in operating assets and liabilities:		
Prepaid expenses	746	(2,527)
Deposits	(767)	(15,000)
Accounts payable and accrued expense	20,287	(10,643)
Grants payable	<u>(304,333)</u>	<u>(215,052)</u>
Net Cash from Operating Activities	<u>(617,946)</u>	<u>(684,580)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(8,809)	-
Purchase of investments	(6,596,602)	(5,865,186)
Proceeds from sale of investments	<u>7,322,720</u>	<u>6,736,772</u>
Net Cash from Investing Activities	<u>717,309</u>	<u>871,586</u>
Net Change in Cash and Cash Equivalents	99,363	187,006
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>233,038</u>	<u>46,032</u>
End of year	<u>\$ 332,401</u>	<u>\$ 233,038</u>

See notes to financial statements

The First Hospital Foundation

Notes to Financial Statements

1. Organization

The First Hospital Foundation (the “Foundation”) was established in 1997 as part of the merger agreement between the Pennsylvania Hospital and the Trustees of the University of Pennsylvania. In the spirit of Pennsylvania Hospital’s historic mission, the First Hospital Foundation supports programs that improve the health of vulnerable and underserved populations in the Greater Philadelphia Region. The First Hospital Foundation has a secondary mission to support the preservation of the historic artifacts and memorials of Pennsylvania Hospital.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements 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.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. The Foundation’s net assets are neither permanently nor temporarily restricted by donor imposed restrictions and are classified as unrestricted.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term investments with initial maturities of three months or less at the time of purchase, except for those short-term investments managed in accordance with the Foundation’s long-term investment strategy.

Investments and Investment Income

The Foundation adopted SFAS No. 157 “Fair Value Measurements” as of January 1, 2008, which, among other things, establishes a hierarchal framework for disclosure and measurement of investments at fair value. The hierarchal disclosure framework prioritizes and ranks the level of market price observations used in measuring investments at fair value. Market price observations are impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observations and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed under SFAS 157 in one of the following categories:

The First Hospital Foundation

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Investments and Investment Income (continued)

Level I—Quoted prices are available in active markets for identical investments as of the reporting date.

Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III—Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The types of investments which would generally be included in this category include equity and/or debt securities issued by private entities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Withdrawal restrictions on certain of these funds may, at times, affect liquidity on a short-term or long-term basis. These types of financial instruments contain varying degrees of risk whereby changes in the fair value of the securities underlying the financial instrument or the cost of satisfying obligations is limited to the amount recognized in the statements of financial position.

Accounting for Uncertainty in Income Taxes

The Foundation's current accounting policy is to provide disclosures for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

Furniture and Equipment

Furniture and fixtures are carried at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The estimated useful lives range from three to five years.

The First Hospital Foundation

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Grants

Unconditional grants are recorded when approved by the Board of Directors. Grants that are payable over future periods are recorded in the period the grant is first awarded when the recipient is subject only to routine performance requirements. Conditional grants are recognized when the conditions on which they depend are substantially met.

Reclassification

Certain items in the 2007 financial statements have been reclassified to conform to the presentation used in the 2008 financial statements.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

3. Investments

The following are major categories of investments measured at estimated fair value as of December 31:

Description	2008			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash Equivalents	\$ 2,722,407	\$ -	\$ -	\$ 2,722,407
Fixed Income	6,753,044	-	-	6,753,044
Equities				
Domestic equities	1,796,614	-	-	1,796,614
International equities	5,523,925	-	-	5,523,925
Partnerships	-	6,808,826	-	6,808,826
Alternatives	-	5,828,011	114,184	5,942,195
	<u>\$ 16,795,990</u>	<u>\$ 12,636,837</u>	<u>\$ 114,184</u>	<u>\$ 29,547,011</u>

The First Hospital Foundation

Notes to Financial Statements

3. Investments *(continued)*

Description	2007			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Fixed Income	9,447,495	-	-	9,447,495
Equities				
Domestic equities	5,816,135	-	-	5,816,135
International equities	9,437,377	-	-	9,437,377
Partnerships	-	11,698,499	-	11,698,499
Alternatives	-	6,769,124	-	6,769,124
	\$ 24,701,007	\$ 18,467,623	\$ -	\$ 43,168,630

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) during 2008:

	Level 3
Beginning balance	\$ -
Total losses included in change in net assets	(2,048)
Purchases, issuances and settlements	116,232
Ending balance	\$ 114,184

The amount of unrealized losses included within investment loss in the statement of activities which relates to assets still held at the reporting date

\$ (2,048)

The First Hospital Foundation

Notes to Financial Statements

3. Investments *(continued)*

Investment advisory fees amounted to \$60,088 and \$64,054 for 2008 and 2007, and are included with professional fees in the statements of activities. Realized gain (loss) on investments, allocation of net earnings (losses) from investments in partnerships, and unrealized gain (loss) on alternative investments are reduced (increased) by the management and performance fees charged by the respective individual funds.

The credit and liquidity crisis in the United States has resulted in substantial volatility in the global financial markets. Consequently, the value of the Foundation's individual investments have and will fluctuate in response to changing market conditions. The amounts of losses, if any, that will be recognized in subsequent periods, cannot be determined.

4. Grants Payable

The following summarizes changes in grants payable as of December 31:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 444,333	\$ 659,385
Grants authorized	1,048,000	1,321,679
Grants paid	<u>(1,352,333)</u>	<u>(1,536,731)</u>
Balance at end of year	<u>\$ 140,000</u>	<u>\$ 444,333</u>

In addition to grants paid in 2008, there were grants approved by the Directors in 2008 and in prior years, scheduled to be paid in subsequent years.

Unpaid grants approved by the Directors as of December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Within one year	\$ 140,000	\$ 329,333
Beyond one year	<u>-</u>	<u>115,000</u>
	<u>\$ 140,000</u>	<u>\$ 444,333</u>

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Notes to Financial Statements

5. Related Party Transactions

During 2008 and 2007, the Foundation outsourced employment services to an organization, of which a Foundation Board Director is the executive director. Under the terms of the agreement, the Foundation has provided a security deposit in the amount of \$15,000 which will be retained by the organization without the payment of interest. The security deposit is refundable to the Foundation upon termination of the agreement. Outsourced employment services amounted to \$115,918 and \$91,435 for 2008 and 2007, respectively, which is included in administrative fees in the statement of activities.

6. Concentration of Credit Risk

The Foundation's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents and investments. The Foundation places its cash and cash equivalents with what it believes to be quality financial institutions. The Foundation invests in equity, fixed income, and alternative investments. The Foundation routinely assesses the diversification and financial strength of its cash and investment portfolio. As a consequence, concentrations of credit risk are limited.

7. Lease Commitment

Effective February 1, 2008, the Foundation entered into an operating lease agreement to sublease office space. The lease term is two years, expiring January 31, 2010.

Minimum future obligations to be made under the lease as of December 31, 2008 are as follows:

2009	\$	9,400
2010		<u>784</u>
	\$	<u>10,184</u>

8. Commitments

The Foundation's investment in a private equity fund requires a capital commitment to the fund. The Foundation made a commitment of \$1.0 million to the fund and \$120,000 of assets have been called as of December 31, 2008. In addition, the Foundation had a commitment of \$1.5 million to a value equity fund at December 31, 2008. The investment was completed on January 1, 2009.

The First Hospital Foundation

Notes to Financial Statements

9. Subsequent Events

Subsequent to December 31, 2008, the Foundation invested in a second private equity fund which requires a capital commitment of \$1.25 million. As of the date of these financial statements no assets have been called on this fund.