

**The First Hospital Foundation**

Financial Statements

December 31, 2009



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

## Independent Auditors' Report

### Board of Directors The First Hospital Foundation

We have audited the accompanying statements of financial position of The First Hospital Foundation (the "Foundation") as of December 31, 2009 and 2008 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 The First Hospital Foundation as of December 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years 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  
June 3, 2010

# The First Hospital Foundation

## Statements of Financial Position

December 31,

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 154,097	\$ 332,400
Prepaid expenses	2,544	1,889
Due from custodian	1,728,238	-
Investments	34,256,402	29,547,011
Deposits	15,767	15,767
Furniture and equipment, net	<u>8,589</u>	<u>7,878</u>
	<u>\$ 36,165,637</u>	<u>\$ 29,904,945</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 30,885	\$ 31,156
Grants payable	<u>610,140</u>	<u>140,000</u>
Total Liabilities	641,025	171,156
 Unrestricted net assets	 <u>35,524,612</u>	 <u>29,733,789</u>
	<u>\$ 36,165,637</u>	<u>\$ 29,904,945</u>

See notes to financial statements

## The First Hospital Foundation

### Statements of Activities

Years Ended December 31,

	2009	2008
<b>REVENUE</b>		
Interest, dividends, and capital gain distributions	\$ 565,251	\$ 1,007,669
Net realized loss on investments	(66,337)	(2,494,018)
Allocation of net earnings (losses) from investments in partnerships	2,141,355	(2,195,208)
	2,640,269	(3,681,557)
Less investment advisory fees	49,834	60,088
Total Revenue, Net	2,590,435	(3,741,645)
<b>EXPENSES</b>		
Grants	1,761,791	1,048,000
Administrative fees	126,752	115,918
Insurance	5,910	6,267
Professional fees	70,364	79,015
Rent	8,576	8,435
Dues and subscriptions	7,709	7,714
Office expenses	10,997	10,192
Depreciation	2,148	931
Miscellaneous expense	4,394	5,919
Total Expenses	1,998,641	1,282,391
Change in Net Assets Before Unrealized Gain (Loss) on Investments	591,794	(5,024,036)
Net unrealized gain (loss) on investments	5,199,029	(8,206,276)
Change in Net Assets	5,790,823	(13,230,312)
<b>NET ASSETS</b>		
Beginning of year	29,733,789	42,964,101
End of year	\$ 35,524,612	\$ 29,733,789

See notes to financial statements

## The First Hospital Foundation

### Statements of Cash Flows

Years ended December 31,

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,790,823	\$ (13,230,312)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized loss on investments	66,337	2,494,018
Net unrealized (gain) loss on investments	(5,199,029)	8,206,276
Allocation of net (earnings) losses from investments in partnerships	(2,141,355)	2,195,208
Depreciation	2,148	931
Net change in operating assets and liabilities		
Prepaid expenses	(655)	746
Deposits	-	(767)
Accounts payable and accrued expenses	(271)	20,287
Grants payable	<u>470,140</u>	<u>(304,333)</u>
Net Cash from Operating Activities	<u>(1,011,862)</u>	<u>(617,946)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	(2,858)	(8,809)
Purchase of investments	(5,283,585)	(6,596,603)
Proceeds from sale of investments	7,848,240	7,322,720
Due from custodian	<u>(1,728,238)</u>	<u>-</u>
Net Cash from Investing Activities	<u>833,559</u>	<u>717,308</u>
Net Change in Cash and Cash Equivalents	(178,303)	99,362
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>332,400</u>	<u>233,038</u>
End of year	<u>\$ 154,097</u>	<u>\$ 332,400</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

#### *Accounting Changes*

In July 2009, the FASB Accounting Standards Codification (the ASC) became the single source of generally accepted accounting principles (GAAP) in the United States. The ASC did not change GAAP, however, it introduced a new structure to the accounting literature and changed references to accounting standards and other authoritative accounting guidance. Application of the Codification did not have an effect on the Foundation’s financial condition, changes in net assets or cash flows.

#### *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.

## **The First Hospital Foundation**

### Notes to Financial Statements

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

##### ***Fair Value Measurements***

The Foundation follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

##### ***Investments Valuation***

Investments are carried at fair value. The fair value of alternative investments (hedge funds and private equity) has been estimated using the Net Asset Value (“NAV”) as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of NAV as a “Practical Expedient” for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation’s interest therein and their classification within Level 2 or 3 is based on the Foundation’s ability to redeem its interest in the near term.

##### ***Investment Income Recognition***

Purchases and sales of securities are recorded on a trade-date basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

##### ***Furniture and Equipment***

The Foundation follows the practice of capitalizing all expenditures for property, building and equipment with a cost in excess of \$1,000. 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.

##### ***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.

# The First Hospital Foundation

## Notes to Financial Statements

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

#### *Reclassification*

Certain items in the 2008 financial statements have been reclassified to conform to the presentation used in the 2009 financial statements.

#### *Income Taxes*

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

#### *Accounting for Uncertainty in Income Taxes*

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial statement disclosure. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2006.

#### *Subsequent Events*

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is June 3, 2010.

### 3. Investments

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

Description	2009			Total
	Level 1	Level 2	Level 3	
Cash Equivalents	\$ 605,141	\$ -	\$ -	\$ 605,141
Fixed Income	6,797,422	-	-	6,797,422
Equities				
Domestic Equities	2,468,289	-	-	2,468,289
International Equities	6,761,892	-	-	6,761,892
Partnerships	-	10,472,982	-	10,472,982
Alternatives				
Private Equities - Funds of Funds	-	-	280,167	280,167
Hedge Funds - Funds of Funds	-	1,240,678	5,629,831	6,870,509
	<u>\$ 16,632,744</u>	<u>\$ 11,713,660</u>	<u>\$ 5,909,998</u>	<u>\$ 34,256,402</u>

## The First Hospital Foundation

### Notes to Financial Statements

#### 3. Investments *(continued)*

Description	2008			
	Level 1	Level 2	Level 3	Total
Cash Equivalents	\$ 2,722,407	\$ -	\$ -	\$ 2,722,407
Fixed Income	6,753,044	-	-	6,753,044
Equities				
Domestic Equities	296,614	-	-	296,614
International Equities	5,523,925	-	-	5,523,925
Partnerships	-	8,308,826	-	8,308,826
Alternatives				
Private Equities - Funds of Funds	-	-	114,184	114,184
Hedge Funds - Funds of Funds	-	1,083,880	4,744,131	5,828,011
	<u>\$ 15,295,990</u>	<u>\$ 9,392,706</u>	<u>\$ 4,858,315</u>	<u>\$ 29,547,011</u>

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 2009:

	Hedge Funds - Funds of Funds	Private Equities - Funds of Funds
Beginning balance	\$ 4,744,131	\$ 114,184
Unrealized gains/(losses) relating to instruments still held at the reporting date included change in net assets	885,700	(54,017)
Purchases, issuances and settlements	<u>-</u>	<u>220,000</u>
Ending balance	<u>\$ 5,629,831</u>	<u>\$ 280,167</u>

Information regarding the Level 3 investments at December 31, 2009 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equities - Funds of Funds	\$ 280,167	\$ 1,822,500	*	*
Hedge Funds - Funds of Funds	<u>5,629,831</u>	<u>-</u>	1 - 3 years	60 - 100 Days
Total	<u>\$ 5,909,998</u>	<u>\$ 1,822,500</u>		

\* The private equities are illiquid assets.

## The First Hospital Foundation

### Notes to Financial Statements

#### 3. Investments *(continued)*

Investment advisory fees amounted to \$49,834 and \$60,088 for 2009 and 2008, and are not 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.

#### 4. Grants Payable

The following summarizes changes in grants in 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 140,000	\$ 444,333
Grants authorized	1,761,790	1,048,000
Grants paid	<u>(1,291,650)</u>	<u>(1,352,333)</u>
Balance at end of year	<u>\$ 610,140</u>	<u>\$ 140,000</u>

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

	<u>2009</u>	<u>2008</u>
Within one year	\$ 446,645	\$ 140,000
Beyond one year	<u>163,495</u>	<u>-</u>
	<u>\$ 610,140</u>	<u>\$ 140,000</u>

#### 5. Related Party Transactions

During 2009 and 2008, 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 \$126,752 and \$115,918 for 2009 and 2008, respectively, which is reported as administrative fees in the statement of activities.

## The First Hospital Foundation

### Notes to Financial Statements

#### 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 May 17, 2010, the Foundation entered into an operating lease agreement to sublease office space. The lease term is two years, expiring January 31, 2012.

Future minimum rental payments to be made under the lease are as follows:

2010	\$	9,271
2011		10,285
2012		<u>858</u>
	\$	<u><u>20,414</u></u>