

*INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS*

THE FIRST HOSPITAL FOUNDATION

DECEMBER 31, 2007 AND 2006



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An independent firm associated with
Moore Stephens International Limited

Independent Auditors' Report

**The Board of Directors
The First Hospital Foundation
Philadelphia, Pennsylvania**

We have audited the accompanying statements of financial position of **The First Hospital Foundation** as of December 31, 2007 and 2006 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 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 **The First Hospital Foundation** as of December 31, 2007 and 2006 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.

Asher & Company Ltd.
ASHER & COMPANY, Ltd.

April 29, 2008

**THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006**

ASSETS

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 233,038	\$ 46,032
Investments	43,168,630	40,784,043
Prepaid expenses	2,635	108
Deposit	<u>15,000</u>	<u>-</u>
Total Assets	<u>\$ 43,419,303</u>	<u>\$ 40,830,183</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 10,869	\$ 21,512
Grants payable	444,333	659,385
Total liabilities	<u>455,202</u>	<u>680,897</u>
COMMITMENTS		
NET ASSETS		
Unrestricted	<u>42,964,101</u>	<u>40,149,286</u>
Total net assets	<u>42,964,101</u>	<u>40,149,286</u>
Total Liabilities and Net Assets	<u>\$ 43,419,303</u>	<u>\$ 40,830,183</u>

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

THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Revenue and gains (losses)		
Interest	\$ 2,756	\$ -
Dividends	728,662	890,606
Capital gain distributions	407,721	310,991
Net realized gain on investments	1,033,803	4,359,637
Net unrealized gain (loss) on investments	857,841	(606,024)
Allocation of net earnings from investments in partnerships	646,315	507,300
Unrealized appreciation on alternative investments	<u>718,214</u>	<u>50,910</u>
Total revenue and gains (losses)	4,395,312	5,513,420
Expenses		
Grants	1,321,679	1,286,768
Administrative fees	87,644	34,442
Insurance	4,547	5,435
Professional fees	96,742	62,290
Rent	7,377	11,065
Filing fees	38,153	-
Miscellaneous expense	24,355	5,420
Total expenses	<u>1,580,497</u>	<u>1,405,420</u>
Changes in net assets	2,814,815	4,108,000
Net assets, beginning of the year	<u>40,149,286</u>	<u>36,041,286</u>
Net assets, end of the year	<u>\$ 42,964,101</u>	<u>\$ 40,149,286</u>

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

THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ 2,814,815	\$ 4,108,000
Adjustments to reconcile changes in net assets to net cash utilized by operating activities:		
Net realized gain on investments	(1,033,803)	(4,359,637)
Net unrealized (gain) loss on investments	(857,841)	606,024
Allocation of net earnings from investments in partnerships	(646,315)	(507,300)
Unrealized appreciation on alternative investments	(718,214)	(50,910)
Changes in:		
Prepaid expenses	(2,527)	435
Deposit	(15,000)	-
Accounts payable	(10,643)	7,658
Grants payable	<u>(215,052)</u>	<u>(93,752)</u>
Net cash utilized by operating activities	(684,580)	(289,482)
INVESTING ACTIVITIES		
Purchase of investments	(5,865,186)	(33,840,111)
Proceeds from sale of investments	<u>6,736,772</u>	<u>34,080,913</u>
Net cash provided by investing activities	<u>871,586</u>	<u>240,802</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	187,006	(48,680)
Cash and cash equivalents, beginning of year	<u>46,032</u>	<u>94,712</u>
Cash and cash equivalents, end of year	<u>\$ 233,038</u>	<u>\$ 46,032</u>

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

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

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 to perpetuate the original mission of the Pennsylvania Hospital as set forth in 1751. The Foundation's mission is to help serve the health needs of the underserved in the communities served by Pennsylvania Hospital. The Foundation also has a secondary purpose to support the preservation of the historic artifacts and memorials of Pennsylvania Hospital.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Foundation maintains cash accounts, which, at times may exceed federally insured limits. The Foundation has not experienced any losses from maintaining its cash accounts in excess of federally insured limits. Management believes that it is not exposed to any significant credit risks on its cash accounts.

Investments

The Foundation invests in various types of investments in order to provide prudent diversification within the portfolio. Investment types include marketable securities (consisting of equity and fixed income mutual fund securities), investments in partnerships, and investments in alternative investments.

Investments in marketable securities are carried at fair value, based on quoted market prices.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Investments (Continued)

Investments in marketable alternative investments consist of the Foundation's interests in hedge funds which are invested with fund of fund managers. The role of marketable alternative investments ("alternatives") is to increase portfolio diversification through sources of return that are not generally correlated with traditional, long-only equity and fixed income securities. In addition, marketable alternatives should provide relatively consistent returns in volatile market environments, thereby reducing the overall volatility of the portfolio. The underlying managers in fund of funds vehicles may engage in the use of derivatives (options/futures/forwards) as part of their investment strategy. Marketable alternatives are generally less liquid than traditional marketable securities, and the Foundation's fund of fund marketable alternative managers have entry/exit terms and capital lockup periods that range from one month to three years.

The Foundation also invests in non-marketable alternative investments in the form of a limited partnership interest in a private equity fund of funds. Non-marketable alternatives also serve to provide returns that are not generally correlated with and exceed the returns of the public markets. Non-marketable alternatives are less liquid than traditional marketable securities and the partnership commitments are for ten years or longer.

The Foundation's investments in alternatives are recorded at approximate fair value as determined and approved by the managers or valuation committees of the respective alternative investments based on judgments, which include, among other factors, restrictions affecting marketability, operating results, financial condition of the issuers and the price of the most recent financing transactions. The value of these investments may differ significantly from the values that would have been used had a ready market for investments existed. Changes in unrealized appreciation or depreciation of these investments are included in the Statement of Activities.

The Foundation's investments in partnerships consist of ownership interests in limited partnerships and limited liability companies that invest in certain equity securities. These investments are generally recorded at capital account value. The capital account is adjusted for the Foundation's proportionate share of undistributed earnings/losses as reported on Schedule K-1 received from the partnership at year end and adjusted based on the fair value of the underlying securities held by the partnership. The Foundation believes the capital account fairly reflects the fair value of the partnerships.

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
DECEMBER 31, 2007 AND 2006**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Income taxes

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

Reclassifications

Certain amounts have been reclassified for 2006 to conform to the presentation for 2007.

NOTE B - INVESTMENTS

Investments held by the Foundation at December 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
<i>Equity</i>		
John Hancock Classic Value	\$ 1,777,062	\$ 2,057,440
Julius Baer International	4,803,220	4,131,106
Harbor International INST	4,634,157	4,124,626
PIMCO Stocks Plus LP B	6,444,881	6,075,976
Vanguard Total Stock Market Index Signal	1,384,249	-
Vanguard Total Stock Market Index Inst	-	4,066,758
Vanguard PRIMECAP	<u>2,654,824</u>	<u>3,182,840</u>
	<u>21,698,393</u>	<u>23,638,746</u>
<i>Fixed Income</i>		
Evergreen Core Bond Fund	-	354,423
PIMCO Total Return	<u>9,447,496</u>	<u>8,632,663</u>
	<u>9,447,496</u>	<u>8,987,086</u>
<i>Partnerships</i>		
Advisory Research Sm/Mid Cap Value Fund II, L.P.	1,515,523	1,563,623
Ashford Capital Partners, L.P.	1,524,332	1,566,004
Pictet Global Emerging Markets Fund LLC	<u>2,213,762</u>	<u>2,127,674</u>
	<u>5,253,617</u>	<u>5,257,301</u>
<i>Alternatives</i>		
TIFF Absolute Return Pool II	3,329,509	-
Forester Offshore Ltd. Class B	<u>3,439,615</u>	<u>2,900,910</u>
	<u>6,769,124</u>	<u>2,900,910</u>
Total Investments	<u>\$43,168,630</u>	<u>\$40,784,043</u>

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE B - INVESTMENTS (Continued)

Investment advisory fees amounted to \$64,054 and \$38,138 at December 31, 2007 and 2006, 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 appreciation (depreciation) on alternative investments are reduced (increased) by the management and performance fees charged by the respective individual funds.

NOTE C - GRANTS PAYABLE

Grants are payable as follows:

<u>Years ended December 31,</u>	<u>2007</u>	<u>2006</u>
Within one year	\$329,333	\$599,385
Beyond one year	<u>115,000</u>	<u>60,000</u>
	<u>\$444,333</u>	<u>\$659,385</u>

NOTE D - RELATED PARTY TRANSACTIONS

During 2007, the Foundation leased employment services from an organization, of which a Foundation Board member is the executive director. Under the terms of the agreement, the Foundation provided a \$15,000 security deposit which will be retained by the organization without the payment of interest. The security deposit is refundable upon termination of the agreement. Leased employment services amounted to \$79,612 in 2007, which is included in Administrative fees in the Statements of Activities.

NOTE E - COMMITMENT

The Foundation's investment in the private equity fund requires a capital commitment to the fund, as defined. As of December 31, 2007, the Foundation made a commitment of \$1.0 million to the fund. No assets have been called as of December 31, 2007.

NOTE F - SUBSEQUENT EVENT

Effective February 1, 2008, the Foundation entered into an operating lease agreement to sublease office space through January 31, 2010. Future minimum lease payments are expected to be approximately \$8,400 in 2008, \$9,400 in 2009, and \$700 in 2010.