THE FIRST HOSPITAL FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

THE FIRST HOSPITAL FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The First Hospital Foundation
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of The First Hospital Foundation, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets 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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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.

A member of Nexia International

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, 2015 and 2014, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, management has elected to early adopt Accounting Standards Update No. 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share*. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
June 6, 2016

THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 198,167	$ 211,755
Prepaid federal excise tax	30,624	9,100
Prepaid expenses	5,188	6,611
Investments	40,814,543	43,827,789
Deposits	20,000	20,000
Furniture and equipment, net of accumulated depreciation of $19,753 in 2015 and $14,362 in 2014	18,868	24,259
TOTAL ASSETS	$ 41,087,390	$ 44,099,514
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 78,386	$ 41,731
Grants payable	60,000	178,311
Rent payable	12,569	13,572
Deferred federal excise tax liability	63,000	102,000
Total liabilities	213,955	335,614
NET ASSETS		
Unrestricted	40,873,435	43,763,900
TOTAL LIABILITIES AND NET ASSETS	$ 41,087,390	$ 44,099,514

See accompanying Notes to Financial Statements.

THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
REVENUE		
Interest, dividends and capital gains distributions	$ 882,417	$ 871,882
Net realized gain on investments	2,587,549	1,098,035
Net earnings from investments in partnerships	254,896	341,127
	3,724,862	2,311,044
Less: investment advisory fees	65,186	66,544
Total revenue	3,659,676	2,244,500
EXPENSES		
Grants	1,502,100	1,151,087
Operations and governance	514,944	387,802
Federal excise tax expense	49,176	81,854
Total grants made and operating expenses	2,066,220	1,620,743
CHANGE IN NET ASSETS BEFORE UNREALIZED LOSS ON INVESTMENTS	1,593,456	623,757
Unrealized loss on investments, net of deferred excise tax benefit of $39,000 in 2015 and $83,000 in 2014	(4,483,921)	(329,796)
CHANGE IN NET ASSETS	(2,890,465)	293,961
NET ASSETS, BEGINNING OF YEAR	43,763,900	43,469,939
NET ASSETS, END OF YEAR	$ 40,873,435	$ 43,763,900

See accompanying Notes to Financial Statements.

THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,890,465)	$ 293,961
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on investments	(2,587,549)	(1,098,035)
Net unrealized loss on investments	4,522,921	412,796
Net earnings from investments in partnerships	(254,896)	(341,127)
Deferred federal excise tax benefit	(39,000)	(83,000)
Depreciation	5,391	2,981
(Increase) decrease in assets:		
Prepaid federal excise tax	(21,524)	(7,100)
Prepaid expenses	1,423	(2,140)
Deposits	-	(4,233)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	36,655	(1,068)
Rent payable	(1,003)	13,572
Grants payable	(118,311)	(144,545)
Net cash used in operating activities	(1,346,358)	(957,938)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(14,071,345)	(6,281,250)
Proceeds from sale of investments	15,111,826	6,969,949
Proceeds from distribution of investments	292,289	48,760
Purchase of fixed assets	-	(26,954)
Net cash provided by investing activities	1,332,770	710,505
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,588)	(247,433)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	211,755	459,188
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 198,167	$ 211,755
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for federal excise tax on investment income	$ 70,700	$ 88,954

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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 Foundation supports programs that improve the health of the vulnerable and underserved populations in the Greater Philadelphia Region. The Foundation has a secondary mission to support the preservation of the historic artifacts and memorials of Pennsylvania Hospital.

Basis of Presentation

The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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

Investments are carried at fair value. Investments in equities and bonds are valued using dealer or exchange-quoted market prices. Shares of mutual funds are valued at the net asset value of the shares held by the Foundation at year-end. Investments in money market funds are valued at cost which approximates fair value. The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. Financial Accounting Standards Board ("FASB") guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of alternative investments.

In accordance with Internal Revenue Service regulations, the Foundation is generally required to distribute an amount no less than 5% of its investable assets each year. After considering the long-term expected return on its investment assets and the possible effect of inflation, the Foundation's Board of Directors has established stable long-term policies that increase the likelihood of achieving its investment objectives to maintain purchasing power of the investment assets as well as to provide additional real growth through investment return. The Foundation expects that spending policy to allow its investments to grow at least equivalent to the rate of inflation plus the spending rate.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The Foundation's investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Funds are invested in a well-diversified asset mix, which includes primarily equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Foundation expects its investment assets, over time, to produce an average rate of return of the consumer price index plus 5% over a period of 7-10 years. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total investment portfolio; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

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.

Investment Risks and Uncertainties

Alternative investments consist of nontraditional, not readily marketable investments, some of which may be structured as limited partnerships, venture capital funds, hedge funds, private equity funds and real estate funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investment liquidated, and those differences could be material.

Furniture and Equipment

The Foundation follows the practice of capitalizing all expenditures for furniture and equipment with a cost in excess of $1,000. Furniture and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets, ranging from three to five years.

Grants Payable

Grants payable 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognition. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions, if any. There were no income tax related interest and penalties recorded for the years ended December 31, 2015 and 2014.

Early Adoption of Accounting Principle

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, ("ASU 2015-07"). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using NAV per share as a practical expedient. The adoption did not impact the results of investments in the financial statements. However, the standard did change the presentation of investments in the footnote disclosures for December 31, 2015 and 2014.

In prior years, the Foundation was required to assign a fair value hierarchy level to each investment. The new disclosure removes that requirement for certain investments. Investments categorized in Level 2 and 3 in the previously issued 2014 financial statements are no longer included in the fair value hierarchy since their fair values are measured using NAV per share as a practical expedient. These investments are now reflected below the fair value hierarchy table under the caption "Investments Measured at Fair Value using Net Asset Value per Share" (Note 2).

Subsequent Events

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 6, 2016, the date the financial statements were available to be issued.

NOTE 2 FAIR VALUE MEASUREMENTS

FASB standards provide the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants.

In determining fair value, the Foundation uses various valuation approaches, including market, income and/or cost approaches. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities. The three levels of the fair value hierarchy are described below:

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 1 – Quoted prices for identical assets or liabilities in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable. There were no Level 2 investments as of December 31, 2015 and 2014.

Level 3 – Significant inputs to the valuation model are unobservable. There were no Level 3 investments as of December 31, 2015 and 2014.

Following is a description of the Foundation’s valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2015 and 2014.

Quoted market prices, when available, are used by the Foundation to determine the fair value of investment securities. Such investments are included in Level 1.

The Foundation holds alternative investments which have no active markets for these funds and the Foundation is unable to obtain independent valuations from market sources. Therefore, the alternative investments are primarily valued at management’s estimated fair value based on amounts provided by the management of the investment entities. Since the fair value for these investments is measured using the NAV per share practical expedient, they are not categorized within the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Foundation's investments measured at fair value on a recurring basis as of December 31, 2015 and 2014:

	2015	2014
Level 1 Investments:		
Fixed Income Funds:		
Bonds	$ 2,314,304	$ 3,821,167
Equity Funds:		
U.S. Small Cap Equity	2,073,412	1,100,340
U.S. Large Cap Equity	6,446,419	3,325,144
International Equities	2,653,465	5,967,382
Commodities	-	957,359
Total Level 1 Investments	13,487,600	15,171,392
Investments Measured at Fair Value using Net Asset Value per Share	26,529,740	28,090,817
Cash Equivalents	797,203	565,580
Total Investments	$ 40,814,543	$ 43,827,789

Information regarding the nature and risk for each major category of Investments Measured at Fair Value using Net Asset Value per Share as a practical expedient as of December 31, 2015 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed Income Funds (a)	$ 2,556,125	$ -	Monthly	0-60 days
Equity Funds (a)	10,458,290	-	Monthly	-
Hedge Funds - Funds of Funds (b)	7,877,219	-	1-2 years	75-95 days
Private Equities - Funds of Funds (c)	3,084,569	2,950,028	*	*
Real Estate Funds (d)	2,553,537	61,336	*	*
	$ 26,529,740	$ 3,011,364		

***** The private equity and real estate funds are illiquid assets.

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

a) This category includes hedge funds investments in securities, commodity interest, other financial assets and small and mid cap materials. Investments occur either directly or indirectly through investment in other pooled investment vehicles, including common stocks and derivative stock index instruments such as options on stock indexes, stock index futures and option thereon, and stock index swap agreements. Investments in this category provide liquidity on a monthly basis.

b) This category includes hedge fund investments with an objective of investing to provide investors with maximum appreciation of capital while incurring reasonable risk by investing primarily in a diversified group of investment funds. The investments in this category can be redeemed on an annual basis and are subject to acquisition lock-ups from two to three years.

c) This category includes private equity investments in domestic and international partnerships. These are long-term investments that cannot be redeemed at the discretion of the Foundation. Instead, distributions are received through liquidation of the underlying assets of the funds. Management has estimated that the underlying assets of the funds will be liquidated in approximately 10 years.

d) This category includes real estate funds that invest indirectly in partnerships that primarily invest in real estate investments acquired in secondary market transactions. The partnerships may also originate investments by contributing capital into existing ownership entities holding real property or engaging in privately negotiated transactions or other means of pursuing an investment, and may engage in investments directly or indirectly, through subsidiaries, partnership interest, joint ventures or otherwise. These are long-term investments that cannot be redeemed at the discretion of the Foundation. Instead, distributions are received through the liquidation of the underlying assets of the funds. Management has estimated that the underlying assets of the funds will be liquidated in approximately seven years.

Investment advisory fees amounted to $65,186 and $66,544 for the years ended December 31, 2015 and 2014, and are not included with professional fees in the statements of activities and changes in net assets. Net realized gain on investments, net earnings from investments in partnerships, and unrealized loss on investments are reduced by the management and performance fee charged by the respective individual funds.

NOTE 3 FEDERAL EXCISE TAXES

Effective January 1, 2011, the Foundation's tax status changed from a public charity to a non-operating private foundation as defined under Section 509(a) of the Internal Revenue Code ("IRC"). The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the IRC, and is subject to a Federal excise tax of 2% on its net investment income, as defined, for tax purposes. However, the excise tax is reduced to 1% if certain conditions are met. The Foundation's rate was 2% for 2015 and 2014. The Foundation has met its minimum distribution requirement.

Deferred excise taxes principally arise from difference between the cost and fair value of investments at year-end.

NOTE 4 UNRELATED BUSINESS INCOME TAX

The Foundation is subject to tax on its unrelated business income from business activities of alternative investments.

NOTE 5 GRANTS PAYABLE

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

	2015	2014
Balance at beginning of year	$ 178,311	$ 322,856
Grants authorized	1,502,100	1,151,087
Grants paid	(1,620,411)	(1,295,632)
Balance at end of year	$ 60,000	$ 178,311

NOTE 6 NATURAL EXPENSES BY OBJECT CLASSIFICATION

The costs of providing various program services and other activities of the Foundation have been summarized on a functional basis in the statement of activities. A summary of the operations and governance expenses by natural type of disbursement for the years ended December 31, 2015 and 2014 is presented below:

	2015	2014
Outsourced employment services	$ 326,013	$ 236,069
Insurance	6,084	5,700
Professional fees	93,770	71,096
Office Rent	42,545	31,272
Dues and subscriptions	5,466	4,132
Online grants management database	7,000	-
Office expenses	13,194	10,020
Depreciation	5,391	2,981
Moving expenses	-	9,968
Miscellaneous expense	15,481	16,564
	$ 514,944	$ 387,802

NOTE 7 OUTSOURCED EMPLOYMENT SERVICES

The Foundation outsources their employment services to another non-profit organization. Under the terms of the agreement of services, the Foundation provided a security deposit in the amount of $15,000, which is retained by the organization without the payment of interest. The security deposit is refundable to the Foundation upon the termination of the agreement. Outsourced employment services amounted to $326,013 and $236,069 for the years ended December 31, 2015 and 2014, respectively, which is reported in operations and governance in the statements of activities and changes in net assets.

NOTE 8 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.

NOTE 9 LEASE COMMITMENTS

Effective May 17, 2010, the Foundation entered into an operating sublease agreement for its office space. The lease term expired on November 30, 2012. An extension agreement was signed on November 29, 2012, which extended the term until May 31, 2014.

Effective June 1, 2014, the Foundation entered into an operating lease agreement for its new office space. The lease term expires on September 30, 2019. There is one renewal option to extend the lease for an additional three years. No rent payments were due for the first four months. The rent commencement date was October 1, 2014. In addition to rent, the Foundation pays electric charges of $1.50 per square foot, or $262, per month and was required to pay a security deposit of $5,000. Rent expense is recognized on a straight-line basis and for the years ended December 31, 2015 and 2014 was $42,545 and $31,272, respectively.

In July 2015, the Foundation entered into an operating lease agreement for an office copier/printer. The first payment was made in August 2015. The lease term expires in July 2019. Lease expense is recognized on a straight-line basis and for the years ended December 31, 2015 was $580, which included a one-time registration fee of $95.

Scheduled future rental payments, including electric charges, to be made under the lease agreements are as follows:

Year Ending December 31,	Amount
2016	$ 47,472
2017	48,518
2018	49,565
2019	37,568
	$ 183,123