

THE FIRST HOSPITAL FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

**THE FIRST HOSPITAL FOUNDATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | |
|---|----------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF FINANCIAL POSITION | 3 |
| STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS | 4 |
| STATEMENTS OF CASH FLOWS | 5 |
| NOTES TO FINANCIAL STATEMENTS | 6 |

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 statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. 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 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.

Board of Directors
The First Hospital Foundation

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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2013 financial statements of The First Hospital Foundation were audited by other auditors whose report dated July 9, 2014, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
June 22, 2015

**THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

| | 2014 | 2013 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 211,755 | \$ 459,188 |
| Prepaid federal excise tax | 9,100 | 2,000 |
| Prepaid expenses | 6,611 | 4,471 |
| Investments | 43,827,789 | 43,538,882 |
| Deposits | 20,000 | 15,767 |
| Furniture and equipment, net of accumulated depreciation of \$14,362 in 2014 and \$11,381 in 2013 | 24,259 | 286 |
| TOTAL ASSETS | \$ 44,099,514 | \$ 44,020,594 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 41,731 | \$ 42,799 |
| Grants payable | 178,311 | 322,856 |
| Rent payable | 13,572 | - |
| Deferred federal excise tax liability | 102,000 | 185,000 |
| Total liabilities | 335,614 | 550,655 |
| NET ASSETS | | |
| Unrestricted | 43,763,900 | 43,469,939 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 44,099,514 | \$ 44,020,594 |

See accompanying Notes to Financial Statements.

THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2014 AND 2013

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| REVENUE | | |
| Interest, dividends and capital gains distributions | \$ 871,882 | \$ 668,979 |
| Net realized gain on investments | 1,098,035 | 705,642 |
| Net earnings from investments in partnerships | 341,127 | 392,928 |
| | <u>2,311,044</u> | <u>1,767,549</u> |
| Less: investment advisory fees | 66,544 | 61,800 |
| | <u>2,244,500</u> | <u>1,705,749</u> |
| EXPENSES | | |
| Grants, net of rescinded grants of \$0 in 2014 and \$517 in 2013 | 1,151,087 | 1,383,361 |
| Operations and governance | 387,802 | 359,930 |
| Federal excise tax expense | 81,854 | 20,500 |
| | <u>1,620,743</u> | <u>1,763,791</u> |
| CHANGE IN NET ASSETS BEFORE UNREALIZED GAIN (LOSS) ON INVESTMENTS | 623,757 | (58,042) |
| Unrealized gain (loss) on investments, net of deferred excise tax expense (benefit) of (\$83,000) in 2014 and \$88,000 in 2013 | <u>(329,796)</u> | <u>4,334,980</u> |
| CHANGE IN NET ASSETS | 293,961 | 4,276,938 |
| NET ASSETS, BEGINNING OF YEAR | <u>43,469,939</u> | <u>39,193,001</u> |
| NET ASSETS, END OF YEAR | <u>\$ 43,763,900</u> | <u>\$ 43,469,939</u> |

See accompanying Notes to Financial Statements.

**THE FIRST HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | 2014 | 2013 |
|---|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 293,961 | \$ 4,276,938 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Net realized gain on investments | (1,098,035) | (705,642) |
| Net unrealized (gain) loss on investments | 412,796 | (4,422,980) |
| Net earnings from investments in partnerships | (341,127) | (392,928) |
| Deferred federal excise tax expense (benefit) | (83,000) | 88,000 |
| Depreciation | 2,981 | 1,378 |
| (Increase) decrease in assets: | | |
| Prepaid federal excise tax | (7,100) | 20,500 |
| Prepaid expenses | (2,140) | (1,063) |
| Deposits | (4,233) | - |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (1,068) | 3,005 |
| Rent payable | 13,572 | - |
| Grants payable | (144,545) | (8,894) |
| | (957,938) | (1,141,686) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (6,281,250) | (16,354,537) |
| Proceeds from sale of investments | 6,969,949 | 13,507,211 |
| Proceeds from distribution of investments | 48,760 | - |
| Purchase of fixed assets | (26,954) | - |
| Due from investment custodian | - | 4,387,442 |
| | 710,505 | 1,540,116 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (247,433) | 398,430 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 459,188 | 60,758 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 211,755 | \$ 459,188 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for federal excise tax on investment income | \$ 88,954 | \$ - |

See accompanying Notes to Financial Statements.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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. 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 the fund's classification within Level 2 or 3 based on the Foundation's ability to redeem its interest in the near term.

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.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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, 2014 and 2013.

Subsequent Events

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 22, 2015, 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 three levels of the fair value hierarchy under the topic are described below:

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.

Level 3 – Significant inputs to the valuation model are unobservable.

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, 2014 and 2013.

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. When quoted market prices are not readily available or representative of fair value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. These investments are included in Level 2.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

The Foundation's investments within Level 3 currently 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. The total fair value of investments measured using Level 3 valuation methodologies represented 28% and 25% of total investment assets as of December 31, 2014 and 2013, respectively.

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.

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.

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2014 and 2013, there were no transfers into or out of Levels 1, 2 or 3.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

The following are the classes and major categories of investments as of December 31, 2014 and 2013 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis:

| | Investment Assets at Fair Value as of December 31, 2014 | | | |
|-----------------------------------|--|----------------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed Income Funds: | | | | |
| Bonds | \$ 3,821,167 | \$ 1,302,272 | \$ - | \$ 5,123,439 |
| U.S. Government and Foreign | | | | |
| Government Bonds | - | 2,027,342 | - | 2,027,342 |
| Equity Funds: | | | | |
| U.S. Small Cap Equity | 1,100,340 | 1,103,908 | - | 2,204,248 |
| U.S. Large Cap Equity | 3,325,144 | 7,597,363 | - | 10,922,507 |
| International Equities | 5,967,382 | 3,724,496 | - | 9,691,878 |
| Commodities | 957,359 | - | - | 957,359 |
| Hedge Funds: | | | | |
| Funds of Funds | - | - | 7,857,229 | 7,857,229 |
| Private Equities - Funds of Funds | - | - | 2,919,839 | 2,919,839 |
| Real Estate Funds | - | - | 1,558,368 | 1,558,368 |
| | <u>\$ 15,171,392</u> | <u>\$ 15,755,381</u> | <u>\$ 12,335,436</u> | 43,262,209 |
| Cash Equivalents | | | | 565,580 |
| Total Investments | | | | <u>\$ 43,827,789</u> |

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

| | Investment Assets at Fair Value as of December 31, 2013 | | | |
|---|--|----------------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed Income Funds: | | | | |
| Bonds | \$ 3,964,684 | \$ 1,287,821 | \$ - | \$ 5,252,505 |
| U.S. Government and Foreign Government Bonds | - | 1,939,709 | - | 1,939,709 |
| Equity Funds: | | | | |
| U.S. Small Cap Equity | 1,102,038 | 1,334,294 | - | 2,436,332 |
| U.S. Large Cap Equity | 3,138,214 | 7,632,090 | - | 10,770,304 |
| International Equities | 6,311,214 | 4,037,841 | - | 10,349,055 |
| Commodities | 1,025,136 | - | - | 1,025,136 |
| Hedge Funds: | | | | |
| Funds of Funds | - | - | 7,515,376 | 7,515,376 |
| Private Equities - Funds of Funds | - | - | 2,073,369 | 2,073,369 |
| Real Estate Funds | - | - | 1,261,099 | 1,261,099 |
| | <u>\$ 15,541,286</u> | <u>\$ 16,231,755</u> | <u>\$ 10,849,844</u> | 42,622,885 |
| Cash Equivalents | | | | <u>915,997</u> |
| Total Investments | | | | <u>\$ 43,538,882</u> |

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances for Level 3 investments during the years ended December 31, 2014 and 2013:

| | 2014 | | | | |
|--------------------------------------|------------------------------|---------------------|---------------------|---|------------------------|
| | Beginning of Year | Purchases | Sales | Total Realized and Unrealized Gain | End of Year |
| Hedge Funds - Funds of Funds | \$ 7,515,376 | \$ - | \$ - | \$ 341,853 | \$ 7,857,229 |
| Private Equities - Funds of Funds | 2,073,369 | 508,125 | (391,944) | 730,289 | 2,919,839 |
| Real Estate Funds | <u>1,261,099</u> | <u>422,094</u> | <u>(296,642)</u> | <u>171,817</u> | <u>1,558,368</u> |
| | <u>\$ 10,849,844</u> | <u>\$ 930,219</u> | <u>\$ (688,586)</u> | <u>\$ 1,243,959</u> | <u>\$ 12,335,436</u> |
| | 2013 | | | | |
| | Beginning of Year | Purchases | Sales | Total Realized and Unrealized Gain | End of Year |
| Hedge Funds - Funds of Funds | \$ 3,633,931 | \$ 3,000,000 | \$ - | \$ 881,445 | \$ 7,515,376 |
| Private Equities - Funds of Funds | 1,510,940 | 501,250 | (130,642) | 191,821 | 2,073,369 |
| Real Estate Funds | <u>1,407,080</u> | <u>309,536</u> | <u>(573,257)</u> | <u>117,740</u> | <u>1,261,099</u> |
| | <u>\$ 6,551,951</u> | <u>\$ 3,810,786</u> | <u>\$ (703,899)</u> | <u>\$ 1,191,006</u> | <u>\$ 10,849,844</u> |

Net unrealized gains on alternative investments held at year end were \$786,461 and \$835,734 for the years ended December 31, 2014 and 2013, respectively.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

Information regarding the nature and risk of certain Level 2 and 3 investments as of December 31, 2014 is as follows:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|---------------------------------------|-----------------------|---------------------------------|---------------------------------|---|
| Fixed Income Funds (a) | \$ 3,329,614 | \$ - | Monthly | 0-60 days |
| Equity Funds (a) | 12,425,767 | - | Monthly | - |
| Hedge Funds - Funds of Funds (b) | 7,857,229 | - | 1-2 years | 75-95 days |
| Private Equities - Funds of Funds (c) | 2,919,839 | 2,351,250 | * | * |
| Real Estate Funds (d) | <u>1,558,368</u> | <u>431,916</u> | * | * |
| | <u>\$ 28,090,817</u> | <u>\$ 2,783,166</u> | | |

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

- 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.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

Investment advisory fees amounted to \$66,544 and \$61,800 for the years ended December 31, 2014 and 2013, and are not included with professional fees in the statement 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 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 2014 and 2013. 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:

| | <u>2014</u> | <u>2013</u> |
|------------------------------|--------------------|--------------------|
| Balance at beginning of year | \$ 322,856 | \$ 331,750 |
| Grants authorized | 1,151,087 | 1,383,361 |
| Grants paid | <u>(1,295,632)</u> | <u>(1,392,255)</u> |
| Balance at end of year | <u>\$ 178,311</u> | <u>\$ 322,856</u> |

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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, 2014 and 2013 is presented below:

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|-------------------|-------------------|
| Outsourced employment services | \$ 236,069 | \$ 247,092 |
| Insurance | 5,700 | 5,348 |
| Professional fees | 71,096 | 63,236 |
| Rent | 31,272 | 11,388 |
| Dues and subscriptions | 4,132 | 3,896 |
| Online grants management database | - | 11,500 |
| Office expenses | 10,020 | 11,160 |
| Depreciation | 2,981 | 1,378 |
| Moving expenses | 9,968 | - |
| Miscellaneous expense | 16,564 | 4,932 |
| | <u>\$ 387,802</u> | <u>\$ 359,930</u> |

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 \$15,767, 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 \$236,069 and \$247,092 for the years ended December 31, 2014 and 2013, respectively, which is reported in operations and governance in the statements of activities and changes in net assets.

NOTE 8 RELATED PARTY TRANSACTIONS

During 2013, the Foundation outsourced employment services as discussed in Note 8 to an organization of which a former Foundation Board Director was the President and CEO. As of May 1, 2013, the President and CEO was no longer on the Foundation's Board and thus the related party transaction ceased.

**THE FIRST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 9 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 10 LEASE COMMITMENT

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, 2014 and 2013 was \$31,272 and \$11,388, respectively.

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

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2015 | \$ 45,261 |
| 2016 | 46,308 |
| 2017 | 47,354 |
| 2018 | 48,401 |
| 2019 | 36,889 |

NOTE 11 LINE-OF-CREDIT

The Foundation had an unsecured line-of-credit with a maximum borrowing availability of \$3,000,000 and an interest rate of LIBOR plus 200 basis points. There was no outstanding balance on this line-of-credit as of December 31, 2013. The agreement expired on October 1, 2014 and was not renewed.