

The San Francisco General Hospital Foundation

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The San Francisco General Hospital Foundation

We have audited the accompanying statement of financial position of The San Francisco General Hospital Foundation (a California non-profit organization) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the six months 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.

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 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 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 San Francisco General Hospital Foundation as of June 30, 2012 and the changes in its net assets and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

DZH Phillips LLP

San Francisco, California
February 15, 2013

The San Francisco General Hospital Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS

ASSETS

Cash and cash equivalents	\$ 10,286,244
Grants receivable	7,040,050
Investments	2,222,272
Inventory - books	1,020
Prepaid expenses and deposits	7,316
Furniture and equipment - net	138,904
Intangible assets - net	20,746
	<hr/>
Total assets	<u>\$ 19,716,552</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 335,351
Funds held in custody for others	828,244
Accrued expenses	21,857
	<hr/>
Total liabilities	1,185,452

NET ASSETS

Unrestricted	
Undesignated net assets	2,587,930
Board designated net assets	2,000,000
	<hr/>
	4,587,930
Temporarily restricted	13,588,741
Permanently restricted	354,429
	<hr/>
Total net assets	18,531,100
	<hr/>
Total liabilities and net assets	<u>\$ 19,716,552</u>

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF ACTIVITIES

For the six months ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Donations and bequests	\$ 767,142	\$ 1,672,374	\$ -	\$ 2,439,516
Investment income	99,755	-	-	99,755
Special events - net of expenses of \$1,106,070	166,854	-	-	166,854
Other income	161,099	50,878	-	211,977
Net assets released from restrictions	2,305,045	(2,305,045)	-	-
	<u>3,499,895</u>	<u>(581,793)</u>	<u>-</u>	<u>2,918,102</u>
Total revenues and support				
Expenses				
Program expenses				
Grants awarded to others	2,791,249	-	-	2,791,249
Other program expenses	266,054	-	-	266,054
	<u>3,057,303</u>	<u>-</u>	<u>-</u>	<u>3,057,303</u>
Supporting services				
Management and general	200,405	-	-	200,405
Fundraising	385,982	-	-	385,982
	<u>3,643,690</u>	<u>-</u>	<u>-</u>	<u>3,643,690</u>
Total expenses				
CHANGE IN NET ASSETS	(143,795)	(581,793)	-	(725,588)
Net assets - December 31, 2011	<u>4,731,725</u>	<u>14,170,534</u>	<u>354,429</u>	<u>19,256,688</u>
Net assets - June 30, 2012	<u>\$ 4,587,930</u>	<u>\$ 13,588,741</u>	<u>\$ 354,429</u>	<u>\$ 18,531,100</u>

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF FUNCTIONAL EXPENSES

For the six months ended June 30, 2012

	Program Expenses	Management and General	Fundraising	Total
Grants awarded to others	\$ 2,791,249	\$ -	\$ -	\$ 2,791,249
Salaries	215,554	95,003	194,341	504,898
Payroll taxes	17,414	8,279	16,702	42,395
Employee benefits	17,715	7,266	22,706	47,687
Conferences and education	-	640	784	1,424
Copy and printing	-	1,548	17,089	18,637
Depreciation and amortization	5,956	6,949	6,949	19,854
Dues and subscriptions	-	5,084	14,225	19,309
Insurance	-	4,313	-	4,313
Occupancy	-	2,374	-	2,374
Office supplies	-	556	5,689	6,245
Office expenses	-	15,536	2,835	18,371
Consulting fees	-	-	45,980	45,980
Postage and delivery	-	350	9,335	9,685
Professional services	-	46,998	38,401	85,399
Travel and parking expense	9,415	5,509	10,946	25,870
Total expenses	<u>\$ 3,057,303</u>	<u>\$ 200,405</u>	<u>\$ 385,982</u>	<u>\$ 3,643,690</u>

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF CASH FLOWS

For the six months ended June 30, 2012

Cash flows provided by (used in) operating activities:	
Change in net assets	\$ (725,588)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	19,854
Net realized and unrealized gains	(69,386)
Changes in operating assets and liabilities:	
Grants receivable	205,300
Prepaid expenses and deposits	5,402
Accounts payable and accrued expenses	(271,511)
Funds held in custody for others	7,058
	<hr/>
Net cash used in operating activities	(828,871)
	<hr/>
Cash flows provided by (used in) investing activities:	
Purchase of furniture	(16,031)
Purchase of marketable securities	(240,586)
Proceeds from sale of marketable securities	226,850
	<hr/>
Net cash used in investing activities	(29,767)
	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(858,638)
Cash and cash equivalents - December 31, 2011	<hr/> 11,144,882
Cash and cash equivalents - June 30, 2012	<hr/> <hr/> \$ 10,286,244
Supplemental cash flow information:	
Noncash transactions	
Donated goods and services	<hr/> <hr/> \$ 570,304

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - DESCRIPTION OF OPERATIONS

The San Francisco General Hospital Foundation is an independent, tax-exempt, non-profit corporation and the only organization dedicated to raising private support for the hospital. The Foundation's mission is to promote excellence in research, education and care for all at San Francisco General Hospital and Trauma Center, the public safety-net hospital. San Francisco General Hospital is also the Level 1 Trauma Center that serves all who live and/or work in the City and County of San Francisco and in Northern San Mateo County. The Foundation works to insure that all San Franciscans have the medical care they need, enabling the Hospital to honor its commitment to patients, staff and the community at large.

During the year beginning January 1, 2012, the Foundation changed its year end from December 31 to June 30. Accordingly, the financial statements for the period ended June 30, 2012 reflect a six month transition period for the period January 1, 2012 through June 30, 2012.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Foundation conform to accounting principles generally accepted in the United States as applicable to non-profit corporations. A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

Financial statement presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets

Unrestricted net assets consist of all resources received to help further the Foundation's primary purpose to act for the benefit of the Hospital that have not been restricted as to time or a specific purpose by a donor.

Temporarily Restricted Net Assets

Temporarily restricted net assets include cash and other assets received with donor stipulations that limit the use of the donated assets. Donor stipulations are either purpose or time restricted. Upon expiration of a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation (continued)

Permanently Restricted Net Assets

Permanently restricted net assets consist of assets where the use has been restricted by donor imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Foundation.

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. All funds in a noninterest-bearing transaction account are insured in full by the Federal Deposit Insurance Corporation through December 31, 2012.

Investments

Investments in marketable securities are recorded at fair value. Donated securities are initially reported at fair value at the date of donation. Gains and losses on securities sales are determined by the specific identification method. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Furniture and equipment

Furniture and equipment purchased with estimated useful lives in excess of one year are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed on the straight-line method using an estimated useful life between three and ten years. The Foundation capitalizes fixed asset purchases in excess of \$500.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to give

The Foundation recognizes all unconditional gifts and pledges in the period notified. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Recognition of revenue

Contributions are reflected in the accounts of the Foundation when their receipt is reasonably assured. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

Contributions and grants receivable are reviewed for collectability, and reserves for uncollectible amounts are established when needed.

Income taxes

The Foundation is qualified as a tax exempt organization under Internal Revenue Code Section 501(c)(3) and by the California Revenue and Taxation Code under Section 23701d. Accordingly, no provision has been made for income taxes in the accompanying financial statements.

Each year, management considers whether any material tax position the Foundation has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Foundation has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in the accompanying financial statements. Tax returns for years subsequent to June 30, 2008 are subject to examination by federal and state tax authorities.

Functional expense allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among program services based on estimates of employees' time incurred and on usage of resources.

Program expenses include grants to the Hospital for programs to improve patient care and comfort.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expense allocation (continued)

Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Fundraising expenses are costs of all activities that constitute an appeal for financial support, that is, costs incurred to induce others to contribute money, securities, time, materials, or facilities to the Foundation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through the date the financial statements are available to be issued, February 15, 2013.

NOTE C - GRANTS RECEIVABLE

Grants receivable at June 30, 2012 consist of the following:

Receivable in one year or less	\$ 4,338,864
Receivable in one to five years	2,750,000
Less: discount to present value	(48,814)
	<u>\$ 7,040,050</u>

As of June 30, 2012, there were two grants with receivable balances due in excess of one year from the balance sheet date. These grants have been discounted using respective interest rates of 1% and 0.09%.

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE D - INVESTMENTS

Cost and fair values of marketable investment securities consist of the following as of June 30, 2012:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Cash & equivalents	\$ 5,353	\$ 5,353	\$ -
U.S. Treasury Bills	298,489	329,001	30,512
Fixed income mutual funds	937,948	939,779	1,831
Mutual funds	4,735	4,735	-
Equities	<u>892,799</u>	<u>943,404</u>	<u>50,605</u>
	<u>\$ 2,139,324</u>	<u>\$ 2,222,272</u>	<u>\$ 82,948</u>

Investment income consists of the following for the six months ended June 30, 2012:

Dividends and interest	\$ 30,369
Net realized and unrealized gains	<u>69,386</u>
	<u>\$ 99,755</u>

NOTE E - FAIR VALUE MEASUREMENTS IN VALUING MARKETABLE INVESTMENT SECURITIES

The Foundation is required, under an accounting pronouncement for fair value measurements, to consider the use of market-based information over entity specific information in valuing its marketable investment securities. The pronouncement establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE E - FAIR VALUE MEASUREMENTS IN VALUING MARKETABLE INVESTMENT
SECURITIES (continued)

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology - unobservable and significant to the fair value measurement.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

All of the Foundation's investments are classified as Level 1.

NOTE F - FURNITURE AND EQUIPMENT - NET

Furniture and equipment consist of the following at June 30, 2012:

Furniture and equipment - at cost	\$ 280,779
Less: accumulated depreciation	<u>(141,875)</u>
	<u>\$ 138,904</u>

Depreciation expense for the six months ended June 30, 2012 amounted to \$17,389.

NOTE G - INTANGIBLE ASSETS - NET

Intangible assets consist of website development costs with a gross carrying amount of \$49,303 and accumulated amortization of \$28,557. Such costs are amortized on the straight-line method over an estimated useful life of 10 years. Amortization expense for the six months ended June 30, 2012 amounted to \$2,465. Amortization expense is expected to be \$4,930 for next year, \$4,043 for the second year, \$3,155 for the third year, \$2,705 for the fourth year, \$2,255 for the fifth year, and \$3,658 thereafter.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE H - FUNDS HELD IN CUSTODY FOR OTHERS

The Foundation acts as a fiscal agent for several organizations providing services to the Hospital and affiliates. In return for providing such services, the Foundation charges a fiscal agent fee of up to ten percent of the funds received.

Balance - beginning of year	\$ 821,186
Funds received	574,103
Funds disbursed	<u>(567,045)</u>
Balance - end of year	<u>\$ 828,244</u>

Fiscal agent fees amounted to \$46,886 for the six months ended June 30, 2012.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 are available for the following purposes:

AIDS/HIV Programs	\$ 152,263
Children's Programs	480,601
Education Programs	1,655,819
Lectureship Programs	104,496
Patient Care Programs	3,300,672
Volunteers' Program	396,188
Women's Program	1,694,169
The Heart of Our City Campaign	5,796,111
Helipad	<u>8,422</u>
	<u>\$ 13,588,741</u>

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE J - NET ASSETS RELEASED FROM RESTRICTIONS

The Foundation raises temporarily restricted donations for projects providing goods and services at The San Francisco General Hospital and Trauma Center. The activities and balances for these projects have been combined and reported as temporarily restricted net assets in the accompanying financial statements. Temporarily restricted net assets can be released from restriction when the Foundation receives an approved disbursement request from the fund administrator. Net assets released from donors' restrictions by incurring allowable expenses were as follows:

AIDS/HIV Programs	\$ 101,942
Children's Programs	50,095
Education Programs	135,621
Lectureship Programs	9,113
Patient Care Programs	1,423,127
Volunteers' Program	52,776
Women's Program	531,068
The Heart of Our City Campaign	1,303
	<u>\$ 2,305,045</u>

NOTE K - BOARD DESIGNATED NET ASSETS

Board designated net assets represent funds set aside for long-term purposes, but not currently intended to be used as an endowment fund. Since the amount of board designated net assets resulted from an internal designation rather than a donor restriction, it is classified and reported under unrestricted net assets.

NOTE L - DONATED GOODS AND SERVICES

Products and services that would otherwise have been purchased are included in donations, grants and bequests in the accompanying statement of activities. Such donated goods and services for the six months ended June 30, 2012 consist of the following:

Advertising	\$ 366,605
Food for fundraising events	123,718
Training	2,700
Other	77,281
	<u>\$ 570,304</u>

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE M - RETIREMENT FUND

The Foundation has a 403(b) retirement plan. All employees are eligible to participate and may contribute any portion of their compensation up to the statutory maximum amount. The plan allows for discretionary employer contributions. Total employer contributions for the six months ended June 30, 2012 amounted to \$765.

NOTE N - ENDOWMENT FUND

The Foundation has two small endowment funds, one for \$190,000 for the volunteer program and one for \$164,429 for general operations. These funds were raised during the period from 2000 through 2004 and are classified as permanently restricted net assets. The funds have been comingled with other interest bearing funds. Any investment income is not material. Management is in the process of developing investment and spending policies in accordance with the Uniform Prudent Management of Institutional Funds Act and will track allocable investment income going forward.

NOTE O - RELATED PARTY

During the six months ended June 30, 2012, a board member's company received \$19,211 for architectural services provided to the Foundation. The amount charged was significantly discounted from standard rates.

NOTE P - THE HEART OF OUR CITY CAMPAIGN

The Campaign for San Francisco General Hospital is a multi-year fundraising effort to support the acquisition of furniture, fixtures and equipment needed as part of the rebuilding of the San Francisco General Hospital and Trauma Center. The Heart of Our City Campaign will be conducted under the authority of the San Francisco General Hospital Foundation Board of Directors and in collaboration with the San Francisco General Hospital and Trauma Center's administration. The expected campaign completion date is December 2015.

NOTE Q - CONCENTRATIONS

Approximately 31% of total donations and bequests came from one donor. Approximately 80% of gross grants receivable at June 30, 2012 are due from two donors.