

The San Francisco General Hospital Foundation

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The San Francisco General Hospital Foundation

We have audited the accompanying financial statements of The San Francisco General Hospital Foundation (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses 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 Foundation'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 Foundation'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.

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, 2013, 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.

DZH Phillips LLP

San Francisco, California
December 11, 2013

The San Francisco General Hospital Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2013

ASSETS

ASSETS

Cash and cash equivalents	\$ 16,576,305
Grants receivable	14,782,042
Investments	2,397,781
Inventory - books	1,020
Prepaid expenses and deposits	18,103
Furniture and equipment - net	114,070
Intangible assets - net	23,211
	<hr/>
Total assets	<u>\$ 33,912,532</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 617,178
Funds held in custody for others	895,126
Accrued expenses	32,395
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Total liabilities	<u>1,544,699</u>

NET ASSETS

Unrestricted	
Undesignated net assets	3,402,036
Board designated net assets	2,000,000
	<hr/>
	5,402,036
Temporarily restricted	26,611,368
Permanently restricted	354,429
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Total net assets	<u>32,367,833</u>
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Total liabilities and net assets	<u>\$ 33,912,532</u>

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Donations and bequests	\$ 1,142,509	\$ 17,516,530	\$ -	\$ 18,659,039
Investment income	237,513	-	-	237,513
Special events - net of expenses of \$1,109,189	388,558	350,000	-	738,558
Other income	886,502	150,527	-	1,037,029
Net assets released from restrictions	4,994,430	(4,994,430)	-	-
	<u>7,649,512</u>	<u>13,022,627</u>	<u>-</u>	<u>20,672,139</u>
Total revenues and support				
Expenses				
Program expenses				
Grants awarded to others	4,994,430	-	-	4,994,430
Other program expenses	590,055	-	-	590,055
	<u>5,584,485</u>	<u>-</u>	<u>-</u>	<u>5,584,485</u>
Supporting services				
Management and general	380,867	-	-	380,867
Fundraising	870,054	-	-	870,054
	<u>6,835,406</u>	<u>-</u>	<u>-</u>	<u>6,835,406</u>
Total expenses				
CHANGE IN NET ASSETS	814,106	13,022,627	-	13,836,733
Net assets - June 30, 2012	<u>4,587,930</u>	<u>13,588,741</u>	<u>354,429</u>	<u>18,531,100</u>
Net assets - June 30, 2013	<u>\$ 5,402,036</u>	<u>\$ 26,611,368</u>	<u>\$ 354,429</u>	<u>\$ 32,367,833</u>

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2013

	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants awarded to others	\$ 4,994,430	\$ -	\$ -	\$ 4,994,430
Salaries	491,094	202,288	404,749	1,098,131
Payroll taxes	31,655	14,324	34,354	80,333
Employee benefits	48,559	21,146	56,414	126,119
Conferences and education	-	674	20,821	21,495
Copy and printing	-	2,613	43,514	46,127
Depreciation and amortization	10,309	12,028	12,028	34,365
Dues and subscriptions	-	7,992	21,007	28,999
Insurance	-	7,559	-	7,559
Occupancy	-	15,801	12,888	28,689
Office supplies	-	810	10,513	11,323
Office expenses	-	20,344	30,563	50,907
Postage and delivery	-	583	15,832	16,415
Professional services	-	71,804	185,944	257,748
Travel and parking expense	8,438	2,901	21,427	32,766
Total expenses	<u>\$ 5,584,485</u>	<u>\$ 380,867</u>	<u>\$ 870,054</u>	<u>\$ 6,835,406</u>

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF CASH FLOWS

For the year ended June 30, 2013

Cash flows provided by (used in) operating activities:	
Change in net assets	\$ 13,836,733
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	34,365
Net realized and unrealized gains	(159,029)
Changes in operating assets and liabilities:	
Grants receivable	(7,741,992)
Prepaid expenses and deposits	(10,787)
Accounts payable and accrued expenses	292,365
Funds held in custody for others	66,882
	<hr/>
Net cash provided by operating activities	6,318,537
	<hr/>
Cash flows provided by (used in) investing activities:	
Purchase of furniture and equipment	(11,996)
Purchase of marketable securities	(570,815)
Proceeds from sale of marketable securities	554,335
	<hr/>
Net cash used in investing activities	(28,476)
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,290,061
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Cash and cash equivalents - beginning of year	10,286,244
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Cash and cash equivalents - end of year	\$ 16,576,305
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Supplemental cash flow information:	
Noncash transactions	
Donated goods and services	\$ 445,195
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The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 works 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.

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, 2013

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.

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.

Fair value measurements

The Foundation considers the use of market-based information over entity specific information in valuing its marketable investments, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability at the measurement date.

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

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (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.

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.

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.

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

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2009 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.

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.

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

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management has evaluated subsequent events through the date the financial statements are available to be issued, December 11, 2013.

NOTE C - GRANTS RECEIVABLE

Grants receivable at June 30, 2013 consist of the following:

Receivable in one year or less	\$ 7,368,709
Receivable in one to five years	7,554,130
	<u>14,922,839</u>
Less: discount to present value	(140,797)
	<u><u>\$ 14,782,042</u></u>

As of June 30, 2013, there were eight grants with receivable balances due in excess of one year. These grants have been discounted using interest rates ranging from 0.09 to 1.4%.

NOTE D - INVESTMENTS

Cost and fair values of marketable investment securities consist of the following as of June 30, 2013:

	Fair Value	Cost	Unrealized Appreciation
Cash & equivalents	\$ 18,580	\$ 18,580	\$ -
U.S. Treasury Bills	218,693	198,270	20,423
Fixed income mutual funds	102,984	100,219	2,765
Equities	2,057,524	1,866,987	190,537
	<u><u>\$ 2,397,781</u></u>	<u><u>\$ 2,184,056</u></u>	<u><u>\$ 213,725</u></u>

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

June 30, 2013

NOTE D – INVESTMENTS (continued)

Investment income consists of the following for the year ended June 30, 2013:

Dividends and interest	\$ 78,484
Net realized and unrealized gains	<u>159,029</u>
	<u><u>\$ 237,513</u></u>

NOTE E - FAIR VALUE MEASUREMENTS

The Foundation's assets measured at fair value on a recurring basis at June 30, 2013 consist of the following:

	Fair Value Measurements at June 30, 2013			Total
	Level 1	Level 2	Level 3	
Cash & equivalents	\$ 18,580	\$ -	\$ -	\$ 18,580
U.S. Treasury Bills	-	218,693	-	218,693
Fixed income mutual funds	-	102,984	-	102,984
Equities	<u>2,057,524</u>	<u>-</u>	<u>-</u>	<u>2,057,524</u>
	<u><u>\$ 2,076,104</u></u>	<u><u>\$ 321,677</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,397,781</u></u>

NOTE F - FURNITURE AND EQUIPMENT - NET

Furniture and equipment consist of the following at June 30, 2013:

Furniture and equipment - at cost	\$ 284,989
Less: accumulated depreciation	<u>(170,919)</u>
	<u><u>\$ 114,070</u></u>

Depreciation expense for the year ended June 30, 2013 amounted to \$29,045.

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

June 30, 2013

NOTE G - INTANGIBLE ASSETS - NET

Intangible assets consist of website development costs with a gross carrying amount of \$57,088 and accumulated amortization of \$33,877. Such costs are amortized on the straight-line method over an estimated useful life of 10 years. Amortization expense for the year ended June 30, 2013 amounted to \$5,320.

Amortization expense is expected to be as follows:

Year ending June 30,		
2014	\$	4,821
2015		3,934
2016		3,484
2017		3,034
2018		3,034
Thereafter		<u>4,904</u>
	\$	<u><u>23,211</u></u>

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	\$	828,244
Funds received		828,156
Funds disbursed		<u>(761,274)</u>
Balance - end of year	\$	<u><u>895,126</u></u>

Fiscal agent fees amounted to \$37,429 for the year ended June 30, 2013.

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

June 30, 2013

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 are available for the following purposes:

AIDS/HIV Programs	\$ 243,965
Children's Programs	620,921
Education Programs	5,282,406
Lectureship Programs	89,582
Patient Care Programs	2,778,287
Volunteers' Program	394,916
Women's Program	983,996
The Heart of Our City Campaign	16,208,873
Helipad	8,422
	<u>\$ 26,611,368</u>

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	\$ 97,032
Children's Programs	130,889
Education Programs	1,880,516
Lectureship Programs	58,378
Patient Care Programs	1,970,337
Volunteers' Program	135,735
Women's Program	721,543
	<u>\$ 4,994,430</u>

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2013

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 year ended June 30, 2013 consist of the following:

Event facility	\$ 200,000
Rent	24,000
Food for fundraising	94,113
Other	<u>127,082</u>
	<u>\$ 445,195</u>

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 year ended June 30, 2013 amounted to \$16,870.

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.

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2013

NOTE O - RELATED PARTY

During the year ended June 30, 2013, a board member's company received \$1,463 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 is being 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 63% of total donations and bequests came from three donors. Approximately 93% of gross grants receivable at June 30, 2013 are due from four donors.