

The San Francisco General Hospital Foundation

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2014

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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, 2014, 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, 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.

DZH Phillips LLP

San Francisco, California
January 30, 2015

The San Francisco General Hospital Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2014

ASSETS

ASSETS

Cash and cash equivalents	\$ 30,871,712
Pledges receivable - net	17,326,855
Investments	2,705,451
Inventory - books	1,020
Prepaid expenses and deposits	18,103
Furniture and equipment - net	105,894
Intangible assets - net	44,087
	<hr/>
Total assets	<u>\$ 51,073,122</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 651,859
Funds held in custody for others	1,013,689
Accrued expenses	40,302
	<hr/>
Total liabilities	<u>1,705,850</u>

NET ASSETS

Unrestricted	
Undesignated net assets	5,040,721
Board designated net assets	2,000,000
	<hr/>
	7,040,721
Temporarily restricted	41,972,122
Permanently restricted	354,429
	<hr/>
Total net assets	<u>49,367,272</u>
	<hr/>
Total liabilities and net assets	<u>\$ 51,073,122</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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Donations and bequests	\$ 1,486,280	\$ 20,064,223	\$ -	\$ 21,550,503
Investment income	348,017	-	-	348,017
Special events - net of expenses of \$1,503,967	484,242	362,588	-	846,830
Other income	1,430,333	173,092	-	1,603,425
Net assets released from restrictions	5,239,149	(5,239,149)	-	-
	<u>8,988,021</u>	<u>15,360,754</u>	<u>-</u>	<u>24,348,775</u>
Total revenues and support				
Expenses				
Program expenses				
Grants awarded to others	5,239,149	-	-	5,239,149
Other program expenses	531,946	-	-	531,946
	<u>5,771,095</u>	<u>-</u>	<u>-</u>	<u>5,771,095</u>
Supporting services				
Management and general	628,352	-	-	628,352
Fundraising	949,889	-	-	949,889
	<u>7,349,336</u>	<u>-</u>	<u>-</u>	<u>7,349,336</u>
Total expenses				
CHANGE IN NET ASSETS	1,638,685	15,360,754	-	16,999,439
Net assets - June 30, 2013	<u>5,402,036</u>	<u>26,611,368</u>	<u>354,429</u>	<u>32,367,833</u>
Net assets - June 30, 2014	<u>\$ 7,040,721</u>	<u>\$ 41,972,122</u>	<u>\$ 354,429</u>	<u>\$ 49,367,272</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, 2014

	Program Expenses	Management and General	Fundraising	Total
Grants awarded to others	\$ 5,239,149	\$ -	\$ -	\$ 5,239,149
Salaries	440,445	187,424	406,070	1,033,939
Payroll taxes	33,694	13,390	26,331	73,415
Employee benefits	38,526	15,636	39,978	94,140
Conferences and education	-	25	27,498	27,523
Copy and printing	-	25,311	8,635	33,946
Depreciation and amortization	10,843	12,650	12,650	36,143
Dues and subscriptions	-	22,553	27,842	50,395
Insurance	-	11,879	-	11,879
Occupancy	-	201	4,429	4,630
Office supplies	-	165	7,003	7,168
Office expenses	-	56,663	17,649	74,312
Postage and delivery	-	667	50,356	51,023
Professional services	-	278,835	305,323	584,158
Travel and parking expense	8,438	2,953	16,125	27,516
Total expenses	<u>\$ 5,771,095</u>	<u>\$ 628,352</u>	<u>\$ 949,889</u>	<u>\$ 7,349,336</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, 2014

Cash flows provided by (used in) operating activities:	
Change in net assets	\$ 16,999,439
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	36,143
Net realized and unrealized gains	(275,476)
Changes in operating assets and liabilities:	
Pledges receivable	(2,544,813)
Accounts payable and accrued expenses	42,589
Funds held in custody for others	118,563
	<hr/>
Net cash provided by operating activities	14,376,445
	<hr/>
Cash flows provided by (used in) investing activities:	
Purchase of furniture and equipment	(48,843)
Purchase of marketable securities	(1,725,750)
Proceeds from sale of marketable securities	1,693,555
	<hr/>
Net cash used in investing activities	(81,038)
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,295,407
	<hr/>
Cash and cash equivalents - beginning of year	16,576,305
	<hr/>
Cash and cash equivalents - end of year	\$ 30,871,712
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Supplemental cash flow information:	
Noncash transactions	
Donated goods and services	\$ 804,410
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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, 2014

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, 2014

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. Cash held in the investment accounts as part of the Foundation's investment portfolio is classified as investments.

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 based on quoted prices in active markets. Investments in certificates of deposit are carried at cost plus accrued interest (which approximates 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, 2014

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 pledges 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, 2014

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, 2010 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, 2014

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, January 30, 2015.

NOTE C - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2014 consist of the following:

Receivable in one year or less	\$ 7,374,030
Receivable in one to five years	<u>10,236,495</u>
	17,610,525
Less: discount to present value	<u>(283,670)</u>
	<u><u>\$ 17,326,855</u></u>

Management has evaluated pledges receivable and has deemed them fully collectible. Accordingly, no allowance has been provided. These receivables 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, 2014:

	Fair Value	Cost	Unrealized Appreciation
Cash & equivalents	\$ 92,150	\$ 92,150	\$ -
U.S. Treasury Bills	158,546	151,929	6,617
Corporate Bonds	509,226	513,584	(4,358)
Bond Funds	307,606	299,270	8,336
Equities	<u>1,637,923</u>	<u>1,399,531</u>	<u>238,392</u>
	<u><u>\$ 2,705,451</u></u>	<u><u>\$ 2,456,464</u></u>	<u><u>\$ 248,987</u></u>

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

June 30, 2014

NOTE D – INVESTMENTS (continued)

Investment income consists of the following for the year ended June 30, 2014:

Dividends and interest	\$ 72,541
Net realized and unrealized gains	<u>275,476</u>
	<u><u>\$ 348,017</u></u>

NOTE E - FAIR VALUE MEASUREMENTS

The Foundation's assets measured at fair value on a recurring basis at June 30, 2014 consist of the following:

	Fair Value Measurements at June 30, 2014			Total
	Level 1	Level 2	Level 3	
Cash & equivalents	\$ 92,150	\$ -	\$ -	\$ 92,150
U.S. Treasury Bills	-	158,546	-	158,546
Corporate Bonds	-	509,226	-	509,226
Bond Funds	-	307,606	-	307,606
Equities	<u>1,637,923</u>	<u>-</u>	<u>-</u>	<u>1,637,923</u>
	<u><u>\$ 1,730,073</u></u>	<u><u>\$ 975,378</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,705,451</u></u>

NOTE F - FURNITURE AND EQUIPMENT - NET

Furniture and equipment consist of the following at June 30, 2014:

Furniture and equipment - at cost	\$ 310,032
Less: accumulated depreciation	<u>(204,138)</u>
	<u><u>\$ 105,894</u></u>

Depreciation expense for the year ended June 30, 2014 amounted to \$33,219.

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

June 30, 2014

NOTE G - INTANGIBLE ASSETS - NET

Intangible assets consist of website development costs with a gross carrying amount of \$80,888 and accumulated amortization of \$36,801. 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, 2014 amounted to \$2,923.

Amortization expense is expected to be as follows:

Year ending June 30,		
2015	\$	5,374
2016		5,864
2017		5,414
2018		5,414
2019		5,414
Thereafter		<u>16,607</u>
	\$	<u><u>44,087</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	\$	895,126
Funds received		1,005,431
Funds disbursed		<u>(886,868)</u>
Balance - end of year		<u><u>\$ 1,013,689</u></u>

Fiscal agent fees amounted to \$50,581 for the year ended June 30, 2014.

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

June 30, 2014

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 are available for the following purposes:

AIDS/HIV Programs	\$ 407,340
Children's Programs	792,128
Education Programs	948,439
Lectureship Programs	5,773
Patient Care Programs	6,531,568
Volunteers' Program	459,831
Women's Program	405,627
The Heart of Our City Campaign	32,421,416
	<u>\$ 41,972,122</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	\$ 293,058
Children's Programs	66,135
Education Programs	542,022
Lectureship Programs	25,164
Patient Care Programs	2,216,913
Volunteers' Program	202,667
Women's Program	898,443
The Heart of Our City Campaign	994,747
	<u>\$ 5,239,149</u>

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

June 30, 2014

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, 2014 consist of the following:

Advertising	\$ 562,260
Food for fundraising	82,715
Other	<u>159,435</u>
	<u>\$ 804,410</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, 2014 amounted to \$5,354.

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, 2014

NOTE O - 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 P - CONCENTRATIONS

Approximately 39% of total donations and bequests came from three donors. Approximately 65% of gross pledges receivable at June 30, 2014 are due from four donors.