

The San Francisco General Hospital Foundation

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2015

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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, 2015, 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, 2015, 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 15, 2016

The San Francisco General Hospital Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2015

ASSETS

ASSETS

Cash and cash equivalents	\$ 28,629,631
Pledges receivable - net	64,023,881
Other receivables	30,603
Prepaid expenses and deposits	10,492
Inventory - books	1,020
Investments	2,751,172
Furniture and equipment - net	213,999
Intangible assets - net	37,774
	<hr/>
Total assets	<u><u>\$ 95,698,572</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 445,728
Funds held in custody for others	1,110,479
Accrued expenses	89,160
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Total liabilities	<u>1,645,367</u>

NET ASSETS

Unrestricted	
Undesignated net assets	7,290,480
Board designated net assets	2,000,000
	<hr/>
	9,290,480
Temporarily restricted	80,408,296
Permanently restricted	4,354,429
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Total net assets	<u>94,053,205</u>
	<hr/>
Total liabilities and net assets	<u><u>\$ 95,698,572</u></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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Donations and bequests	\$ 773,099	\$ 99,885,992	\$ 4,000,000	\$ 104,659,091
Investment income	81,597	-	-	81,597
Special events - net of direct expenses of \$1,054,976	943,582	-	-	943,582
Sale of hearts and heart merchandise	39,150	-	-	39,150
Other income	3,876,271	149,156	-	4,025,427
Net assets released from restrictions	61,598,974	(61,598,974)	-	-
	<u>67,312,673</u>	<u>38,436,174</u>	<u>4,000,000</u>	<u>109,748,847</u>
Total revenues and support				
Expenses				
Program expenses				
Grants awarded to others	62,094,606	-	-	62,094,606
Other program expenses	1,091,164	-	-	1,091,164
	<u>63,185,770</u>	<u>-</u>	<u>-</u>	<u>63,185,770</u>
Supporting services				
Management and general	853,909	-	-	853,909
Fundraising	1,023,235	-	-	1,023,235
	<u>65,062,914</u>	<u>-</u>	<u>-</u>	<u>65,062,914</u>
Total expenses				
CHANGE IN NET ASSETS	2,249,759	38,436,174	4,000,000	44,685,933
Net assets - June 30, 2014	<u>7,040,721</u>	<u>41,972,122</u>	<u>354,429</u>	<u>49,367,272</u>
Net assets - June 30, 2015	<u>\$ 9,290,480</u>	<u>\$ 80,408,296</u>	<u>\$ 4,354,429</u>	<u>\$ 94,053,205</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, 2015

	Program Expenses	Management and General	Fundraising	Total
Grants awarded to others	\$ 62,094,606	\$ -	\$ -	\$ 62,094,606
Salaries	423,140	250,820	393,771	1,067,731
Payroll taxes	32,873	24,074	29,783	86,730
Employee benefits	48,558	28,783	45,188	122,529
Advertising and promotion	64	30,457	-	30,521
Conferences and education	5,625	4,837	21,696	32,158
Copy and printing	-	12,668	29,841	42,509
Depreciation and amortization	13,833	16,138	16,138	46,109
Dues and subscriptions	495	19,479	25,068	45,042
Insurance	-	11,267	2,400	13,667
Occupancy	-	5,580	1,193	6,773
Office supplies	492	10,338	1,909	12,739
Office expenses	24,910	50,606	104,376	179,892
Postage and delivery	3,113	7,134	7,676	17,923
Professional services	535,975	368,669	332,289	1,236,933
Travel and parking expense	2,086	13,059	11,907	27,052
Total expenses	<u>\$ 63,185,770</u>	<u>\$ 853,909</u>	<u>\$ 1,023,235</u>	<u>\$ 65,062,914</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, 2015

Cash flows provided by (used in) operating activities:	
Change in net assets	\$ 44,685,933
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	46,109
Loss on disposal of furniture and equipment	2,923
Net realized and unrealized loss	2,968
Changes in operating assets and liabilities:	
Pledges receivable - net	(46,697,026)
Other receivables	(30,603)
Prepaid expenses and deposits	7,611
Accounts payable and accrued expenses	(157,272)
Funds held in custody for others	96,790
	<hr/>
Net cash used in operating activities	(2,042,567)
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Cash flows provided by (used in) investing activities:	
Purchase of furniture and equipment	(150,824)
Purchase of investments	(851,279)
Proceeds from sale of investments	802,589
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Net cash used in investing activities	(199,514)
	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,242,081)
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Cash and cash equivalents - beginning of year	30,871,712
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Cash and cash equivalents - end of year	\$ 28,629,631
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Supplemental cash flow information:	
Noncash transactions:	
Donated goods and services	\$ 291,885
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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, 2015

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 ensure 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, 2015

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 (currently \$250,000 per depositor). 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, 2015

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 furniture and equipment 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, 2015

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.

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, 2015

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 15, 2016.

NOTE C - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2015 consist of the following:

Receivable in one year or less	\$ 46,392,272
Receivable in one to five years	14,253,655
Receivable in more than five years	<u>4,900,115</u>
	65,546,042
Less: discount to present value	<u>(1,268,356)</u>
	64,277,686
Less: allowance for uncollectible pledges	<u>(253,805)</u>
	<u><u>\$ 64,023,881</u></u>

These receivables have been discounted using interest rate of 2%.

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

June 30, 2015

NOTE D - INVESTMENTS

Cost and fair values of investments consist of the following as of June 30, 2015:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Cash & Cash Equivalents	\$ 137,787	\$ 137,787	\$ -
Equities			
Basic Industry	121,462	123,724	(2,262)
Industrials	67,534	67,508	26
Consumer	172,806	137,282	35,524
Technology	254,762	229,695	25,067
Communications	52,436	54,567	(2,131)
Energy	132,744	151,072	(18,328)
Finance	111,582	98,170	13,412
Healthcare	327,701	255,251	72,450
Mutual Funds			
Equity Funds	63,311	61,975	1,336
Bond Funds	92,665	96,288	(3,623)
U.S. Treasury Bills	186,143	177,623	8,520
Corporate Bonds	746,223	759,239	(13,016)
Real Estate Investment Trust	31,000	33,362	(2,362)
Exchange Traded Funds	253,016	245,522	7,494
	<u>\$ 2,751,172</u>	<u>\$ 2,629,065</u>	<u>\$ 122,107</u>

Investment income consists of the following for the year ended June 30, 2015:

Dividends and interest	\$ 84,565
Net realized and unrealized loss	<u>(2,968)</u>
	<u>\$ 81,597</u>

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

June 30, 2015

NOTE E - FAIR VALUE MEASUREMENTS

The Foundation's assets measured at fair value on a recurring basis at June 30, 2015 consist of the following:

	Fair Value Measurements at June 30, 2015			Total
	Level 1	Level 2	Level 3	
Cash & Cash Equivalents	\$ 137,787	\$ -	\$ -	\$ 137,787
Equities				
Basic Industry	121,462	-	-	121,462
Industrials	67,534	-	-	67,534
Consumer	172,806	-	-	172,806
Technology	254,762	-	-	254,762
Communications	52,436	-	-	52,436
Energy	132,744	-	-	132,744
Finance	111,582	-	-	111,582
Healthcare	327,701	-	-	327,701
Mutual Funds				
Equity Funds	63,311	-	-	63,311
Bond Funds	92,665	-	-	92,665
U.S. Treasury Bills	-	186,143	-	186,143
Corporate Bonds	-	746,223	-	746,223
Real Estate Investment Trust	31,000	-	-	31,000
Exchange Traded Funds	253,016	-	-	253,016
	<u>\$ 1,818,806</u>	<u>\$ 932,366</u>	<u>\$ -</u>	<u>\$ 2,751,172</u>

NOTE F - FURNITURE AND EQUIPMENT - NET

Furniture and equipment consist of the following at June 30, 2015:

Furniture and equipment - at cost	\$ 457,933
Less: accumulated depreciation	<u>(243,934)</u>
	<u>\$ 213,999</u>

Depreciation expense for the year ended June 30, 2015 amounted to \$39,795.

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

June 30, 2015

NOTE G - INTANGIBLE ASSETS - NET

Intangible assets consist of website development costs with a gross carrying amount of \$80,888 and accumulated amortization of \$43,114. 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, 2015 amounted to \$6,314.

Amortization expense is expected to be as follows:

Year ending June 30,	
2016	\$ 4,924
2017	5,414
2018	5,414
2019	5,414
2020	4,286
Thereafter	<u>12,322</u>
	<u><u>\$ 37,774</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	\$ 1,013,689
Funds received	1,096,924
Funds disbursed	<u>(1,000,134)</u>
Balance - end of year	<u><u>\$ 1,110,479</u></u>

Fiscal agent fees amounted to \$56,886 for the year ended June 30, 2015.

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

June 30, 2015

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 are available for the following purposes:

AIDS/HIV Programs	\$ 516,355
Children's Programs	816,028
Education Programs	4,120,406
Lectureship Programs	106,301
Patient Care Programs	4,441,106
Volunteers' Program	407,814
Women's Program	1,045,822
The Heart of Our City Campaign	<u>68,954,464</u>
	<u>\$ 80,408,296</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 for the year ended June 30, 2015 were as follows:

AIDS/HIV Programs	\$ 397,935
Children's Programs	33,216
Education Programs	1,916,958
Lectureship Programs	25,082
Patient Care Programs	1,543,142
Volunteers' Program	138,250
Women's Program	428,717
The Heart of Our City Campaign	<u>57,115,674</u>
	<u>\$ 61,598,974</u>

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

June 30, 2015

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

Donated 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, 2015 consist of the following:

Facilities	\$ 200,000
Patient assistance	5,156
Food for fundraising	76,679
Other	10,050
	<u>\$ 291,885</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, 2015 amounted to \$21,998.

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

June 30, 2015

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.

During the year ended June 30, 2015, the Foundation received a grant award which includes \$4,000,000 to create an additional endowment fund to provide ongoing support to the Foundation. This award is included in pledges receivable at June 30, 2015 and, therefore, no investment earnings or appropriations have been calculated for the year then ended.

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 - 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 building of the new Acute Care and Trauma Center at San Francisco General Hospital. 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.

During the year ended June 30, 2015, the Foundation received a grant award in the amount of \$75,000,000. Under the terms of the grant award, \$6,625,000 of the gift is designated for the Foundation, to strengthen its ongoing work to support the needs of San Francisco General Hospital (the "Hospital"). Also under the terms of the award, the Foundation executed an agreement with the City and County of San Francisco (the "City"), agreeing to grant \$68,375,000 towards the *Heart of Our City Campaign*. A total of \$32,375,000 was paid to the Hospital for furniture, fixture and equipment needs through June 30, 2015. The remaining \$36,000,000 is to be provided to support future furniture and equipment needs of the Hospital, as well as a public health/community outreach campaign that promotes greater awareness of the Hospital. The \$36,000,000 is subject to be paid by the Foundation to vendors or to the City to cover grant-related expenditures as those expenses are incurred, and will be recognized as program expense at that time.

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

June 30, 2015

NOTE P - CONCENTRATIONS

Approximately 72% of total donations and bequests came from one donor. Approximately 64% of gross pledges receivable at June 30, 2015 are due from two donors.