



**OBICI HEALTHCARE FOUNDATION, INC.**

Financial Statements

March 31, 2007

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
2100 Dominion Tower  
999 Waterside Drive  
Norfolk, VA 23510

## **Independent Auditors' Report**

The Board of Directors  
Obici Healthcare Foundation, Inc.:

We have audited the accompanying statement of financial position of Obici Healthcare Foundation, Inc. (the Foundation) as of March 31, 2007, and the related statements of activities and cash flows for the year 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Obici Healthcare Foundation, Inc. as of March 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

July 30, 2007

**OBICI HEALTHCARE FOUNDATION, INC.**

Statement of Financial Position

March 31, 2007

**Assets**

Current assets:	
Cash and cash equivalents	\$ 6,184,841
Restricted cash equivalents (note 7)	5,218,436
Accrued interest and dividends receivable	95,009
Total current assets	<u>11,498,286</u>
Investments (note 3)	102,324,930
Furniture and equipment, net (note 4)	31,477
Other assets (note 8)	650,000
Total assets	<u>\$ 114,504,693</u>

**Liabilities and Net Assets**

Current liabilities:	
Accounts payable and accrued expenses	\$ 58,153
Healthcare grants payable	404,269
Excise tax payable (note 6)	75,404
Other liabilities	90,000
Deferred contribution revenue (note 7)	2,662,435
Total current liabilities	<u>3,290,261</u>
Unrestricted net assets	<u>111,214,432</u>
Total liabilities and net assets	<u>\$ 114,504,693</u>

See accompanying notes to financial statements.

**OBICI HEALTHCARE FOUNDATION, INC.**

Statement of Activities

Year ended March 31, 2007

Revenues, gains, and other support:

Investment income:

Interest and dividends	\$ 3,982,825
Net realized and unrealized gains on readily marketable investments	2,682,306
Equity in earnings of nonreadily marketable investments	<u>5,489,185</u>

Investment income before investment fees 12,154,316

Less investment fees 475,200

Investment income, net 11,679,116

Unrestricted contributions (notes 7 and 8) 69,487,565

Total revenues, gains, and other support 81,166,681

Expenses:

Healthcare grants	700,200
Management and general (note 9)	<u>405,368</u>

1,105,568

Provision for federal excise taxes 175,404

Total expenses 1,280,972

Increase in net assets 79,885,709

Unrestricted net assets, beginning of year 31,328,723

Unrestricted net assets, end of year \$ 111,214,432

See accompanying notes to financial statements.

**OBICI HEALTHCARE FOUNDATION, INC.**

Statement of Cash Flows

Year ended March 31, 2007

Cash flows from operating activities:	
Increase in net assets	\$ 79,885,709
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	1,473
Net realized and unrealized gains on readily marketable investments	(2,682,306)
Equity in earnings of nonreadily marketable investments	(5,489,185)
Contribution of art collection from Obici Health System	(650,000)
Changes in operating assets and liabilities:	
Accrued interest and dividends receivable	74,604
Accounts payable and accrued expenses	(488,844)
Healthcare grants payable	404,269
Excise tax payable	75,404
Other liabilities	90,000
Deferred contribution revenue	2,662,435
Net cash provided by operating activities	<u>73,883,559</u>
Cash flows from investing activities:	
Purchases of investments, net of sales	(65,606,082)
Purchases of furniture and equipment	(32,950)
Repayment of note receivable (note 5)	3,000,000
Net cash used in investing activities	<u>(62,639,032)</u>
Net increase in cash and cash equivalents	11,244,527
Cash and cash equivalents at beginning of year	<u>158,750</u>
Cash and cash equivalents and restricted cash equivalents at end of year	<u>\$ 11,403,277</u>
Supplemental disclosure of cash flow information:	
Cash paid for excise taxes	\$ 100,000

See accompanying notes to financial statements.

# OBICI HEALTHCARE FOUNDATION, INC.

## Notes to Financial Statements

March 31, 2007

### (1) Organization

Obici Healthcare Foundation, Inc. (the Foundation) is a not-for-profit, nonstock health foundation incorporated in the Commonwealth of Virginia and organized as a private foundation since April 1, 2006. The Foundation provides assistance to those organizations working to meet community health needs in Suffolk, Virginia and surrounding communities, giving attention first to meeting unmet healthcare needs of the indigent and uninsured, and also including the support of programs which have been the primary purpose of preventing and reducing illness and disease. These activities are primarily supported by income from the Foundation's investment portfolio.

### (2) Summary of Significant Accounting Policies

#### (a) *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

#### (b) *Cash Equivalents*

Cash and cash equivalents consist primarily of cash held in checking accounts, money market investments and highly liquid investments with original maturities of three months or less from the date of purchase.

#### (c) *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value determined by quoted market prices in the accompanying statement of financial position. Nonreadily marketable investments, consisting primarily of investments in U.S. limited partnerships and corporations, foreign investment corporations and common collective trusts, are carried on the equity method, which approximates estimated fair value. These amounts represent the Foundation's contribution to the investment plus or minus the Foundation's portion of the investment's gains and losses which are allocated according to the Foundation's ownership percentage. Because of the inherent uncertainties in the valuation of nonreadily marketable investments, carrying values could differ materially from the values that would have been used had a ready market for the investments existed.

Gains and losses on investments are recognized in the accompanying statement of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations. Investment transactions are recorded on a trade-date basis. Dividends are reported on the ex-dividend date.

Dividend, interest and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the income received is limited by donor-imposed restrictions.

#### (d) *Furniture and equipment*

Furniture and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the depreciable assets, which range from three to ten years. Routine maintenance and repairs are charged to expense when incurred.

## OBICI HEALTHCARE FOUNDATION, INC.

### Notes to Financial Statements

March 31, 2007

**(e) Net Assets**

Net assets and revenues, gains and losses are classified based on the existence or absence of donor imposed restrictions. At March 31, 2007, the Foundation's net assets consisted of resources that have no donor imposed restrictions and, accordingly, are classified as unrestricted.

**(f) Noncash Donations**

Noncash donations are recorded as contributions at their estimated fair market values at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions are recorded as unrestricted support.

**(g) Functional Classification of Expenses**

The cost of funding certain programs and other services of the Foundation are reported on a functional basis in the accompanying statement of activities. Accordingly, expenses have been classified among programs and supporting services.

**(h) Income Taxes**

The Foundation has been recognized by the Internal Revenue Service as tax exempt under Section 501(c)(3) of the Internal Revenue Code of 1986 (the Code) and as a private foundation under Section 509(a)(3) of the Code. In accordance with the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined by the Act. The Act also requires that certain minimum distributions be made each year. The amount of these distributions is determined in accordance with a specified formula. Based on this formula, as of March 31, 2007, the Foundation is not required to make any distributions prior to March 31, 2008.

**(i) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(j) Concentrations of Credit Risk**

Financial instruments which potentially subject the Foundation to concentrations of credit and/or market risk consists principally of cash and cash equivalents and investments. The Foundation places its temporary cash and money market accounts with credit-worthy, high quality financial institutions. A significant portion of the funds are not insured by the FDIC.

The Foundation has significant investments in equity securities, mutual funds and nonreadily marketable investments. Investments are made primarily by investment managers engaged by the Foundation, and the investments are monitored by management and the Investment Committee of the board of directors of the Foundation. As part of the fiduciary oversight of the investments, the

**OBICI HEALTHCARE FOUNDATION, INC.**

Notes to Financial Statements

March 31, 2007

Foundation's portfolio has been diversified in various investment categories in accordance with the Foundation's investment policy.

**(3) Investments**

The Foundation's investments at March 31, 2007 are as follows:

	<u>Cost</u>	<u>Fair value</u>
Readily marketable investments:		
Equity securities	\$ 11,558,904	12,629,087
Bond mutual funds	5,317,212	5,284,415
Equity mutual funds	19,828,285	19,864,581
Nonreadily marketable investments:		
U.S. limited partnerships and corporations	28,001,875	31,098,814
Foreign investment corporations	21,100,000	22,376,703
Common collective trusts	9,955,787	11,071,330
Total investments	\$ <u>95,762,063</u>	<u>102,324,930</u>

Certain investment managers of nonreadily marketable investments use investment strategies and techniques designed to achieve higher investment returns with lower volatility and low correlation to major market indices. These strategies and techniques include the use of leverage, futures and forward contracts, option agreements and other derivative instruments create special risks and could increase the impact of adverse security price movements on the Foundation's investment portfolio. Certain nonreadily marketable investments also contain liquidity restrictions ranging from less than one month to more than one year.

**(4) Furniture and Equipment**

Furniture and equipment as of March 31, 2007 consists of the following:

Computer equipment	\$ 27,695
Furniture	<u>5,255</u>
	32,950
Less accumulated depreciation and amortization	<u>(1,473)</u>
Furniture and equipment, net	\$ <u>31,477</u>

**(5) Note Receivable**

A note receivable from the City of Suffolk related to the purchase of land was contributed to the Foundation by Louise Obici Memorial Hospital on March 31, 2006. The note totaled \$3,000,000 and was payable in two installments of \$1,500,000 on June 30, 2006 and December 31, 2006. The interest rate was 4% per annum. The note was paid in full pursuant to the terms of the agreement.

**OBICI HEALTHCARE FOUNDATION, INC.**

Notes to Financial Statements

March 31, 2007

**(6) Excise Tax Payable**

The Foundation is subject to an excise tax of 1% or 2% on its net investment income, excluding unrealized gains and losses. The applicable excise tax rate is dependent upon the amount of qualifying distributions made by the Foundation and additional excise tax penalties may be assessed if certain minimum distributions are not made. The Foundation was subject to an excise tax rate of 2% for the year ended March 31, 2007.

**(7) Unrestricted Contributions and Restricted Cash Equivalents**

Effective April 1, 2006, Obici Health System (OHS) merged with Sentara Healthcare (Sentara). In connection with the merger, Sentara made an unrestricted contribution of \$71,500,000 to the Foundation subject to an audit of OHS' closing balance sheet as of March 31, 2006. Of this amount, \$5,000,000, plus accrued interest of \$218,436, is being held in escrow for the satisfaction of any claims arising from the agreement. Subsequent to year-end, Sentara presented a claim on the escrow account totaling \$2,662,435. The Foundation has commenced an analysis of this claim; however, it is unknown when the claim will ultimately be resolved. Accordingly, the contribution amount has not been finalized.

The Foundation recorded a contribution from Sentara totaling \$68,837,565 in the accompanying statement of activities, and deferred recognition of \$2,662,435 in contribution revenue until such time as Sentara's claim is resolved. It is management's belief that the resolution of the claim will not have a material adverse impact on the Foundation's net assets.

Escrowed funds are to be released to the Foundation in two installments at 12 months and 24 months after closing. Subsequent to year-end, \$2,500,000 in escrowed funds were released to the Foundation.

**(8) Other Assets**

Effective April 1, 2006, OHS contributed a collection of artwork to the Foundation appraised at approximately \$650,000.

**(9) Lease Commitment**

The Foundation has an office lease that expires in fiscal year 2008. During fiscal year 2007, the Foundation incurred rent expense of \$20,719. Minimum rentals due in 2008 under this agreement are \$25,500.