



OBICI HEALTHCARE FOUNDATION, INC.

Financial Statements

March 31, 2009 and 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Obici Healthcare Foundation, Inc.:

We have audited the accompanying statements of financial position of Obici Healthcare Foundation, Inc. (the Foundation) as of March 31, 2009 and 2008, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the financial statements, on April 1, 2008, the Foundation changed its method of accounting for fair value of investments due to the adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

KPMG LLP

August 18, 2009

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Financial Position

March 31, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 15,193,608	1,862,578
Restricted cash equivalents (note 6)	—	2,845,133
Accrued interest and dividends receivable	21,404	11,080
Total current assets	15,215,012	4,718,791
Investments (note 3)	57,926,077	103,353,400
Furniture and equipment, net (note 4)	37,738	46,071
Other assets (notes 5 and 7)	864,072	719,027
Total assets	\$ 74,042,899	108,837,289
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,251	60,098
Healthcare grants payable	3,406,794	5,076,768
Deferred contribution revenue (note 6)	—	2,848,593
Total current liabilities	3,439,045	7,985,459
Unrestricted net assets	70,603,854	100,851,830
Total liabilities and net assets	\$ 74,042,899	108,837,289

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Activities

Years ended March 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues, gains (losses), and other support:		
Investment income:		
Interest and dividends	\$ 631,014	2,448,678
Net realized and unrealized losses on investments	<u>(26,309,551)</u>	<u>(2,590,814)</u>
Investment loss before investment fees, net	(25,678,537)	(142,136)
Less investment fees	<u>509,674</u>	<u>589,236</u>
Investment loss, net	(26,188,211)	(731,372)
Unrestricted contributions, net (notes 6 and 7)	<u>—</u>	<u>(322,878)</u>
Total revenues, gains (losses), and other support, net	<u>(26,188,211)</u>	<u>(1,054,250)</u>
Expenses:		
Healthcare grants	3,165,002	8,500,397
Program and administrative (notes 8 and 9)	<u>882,625</u>	<u>774,952</u>
	4,047,627	9,275,349
Provision for federal excise taxes (note 5)	<u>12,138</u>	<u>33,003</u>
Total expenses	<u>4,059,765</u>	<u>9,308,352</u>
Decrease in net assets	(30,247,976)	(10,362,602)
Unrestricted net assets, beginning of year	<u>100,851,830</u>	<u>111,214,432</u>
Unrestricted net assets, end of year	<u>\$ 70,603,854</u>	<u>100,851,830</u>

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Cash Flows

Years ended March 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (30,247,976)	(10,362,602)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	14,090	11,567
Net realized and unrealized losses on investments	26,309,551	2,590,814
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	(10,324)	83,929
Other assets	(154,997)	(21,934)
Accounts payable and accrued expenses	(27,847)	1,945
Healthcare grants payable	(1,669,974)	4,672,499
Prepaid excise taxes	9,952	(122,497)
Other liabilities	—	(90,000)
Deferred contribution revenue	(2,848,593)	186,158
Net cash used in operating activities	<u>(8,626,118)</u>	<u>(3,050,121)</u>
Cash flows from investing activities:		
Purchases of investments	(23,784,169)	(31,890,374)
Sales of investments	42,901,941	28,271,090
Purchases of furniture and equipment	(5,757)	(26,161)
Net cash provided by (used in) investing activities	<u>19,112,015</u>	<u>(3,645,445)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash equivalents	10,485,897	(6,695,566)
Cash and cash equivalents and restricted cash equivalents at beginning of year	<u>4,707,711</u>	<u>11,403,277</u>
Cash and cash equivalents and restricted cash equivalents at end of year	<u>\$ 15,193,608</u>	<u>4,707,711</u>
Supplemental disclosure of cash flow information:		
Cash paid for excise taxes	\$ 2,186	155,500

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Notes to Financial Statements

March 31, 2009 and 2008

(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 and 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 statements 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 at net asset value per share, 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 statements 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, 2009 and 2008

(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, 2009 and 2008, 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 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) Healthcare Grant Expenditures

Healthcare grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At March 31, 2009, all grants payable were current liabilities.

(h) Presentation 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 healthcare grants and programs and administrative expenses. Program and administrative expenses relate to activities which support the grant making process as well as administrative operational costs.

(i) 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, qualifying distributions in excess of the minimum required were made prior to March 31, 2009.

The Foundation evaluates uncertain tax positions annually and has elected to defer the recognition and disclosure provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), in accordance with FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*.

(j) 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

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Notes to Financial Statements

March 31, 2009 and 2008

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) 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 Federal Deposit Insurance Corporation.

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 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, 2009 and 2008 are as follows:

	2009		2008	
	Cost	Fair value	Cost	Fair value
Readily marketable investments:				
Equity securities	\$ 6,766,921	6,486,121	10,130,167	9,818,201
Bond mutual funds	4,729,371	4,741,971	4,556,041	4,620,363
Equity mutual funds	3,772,650	3,304,660	21,127,695	19,630,567
Nonreadily marketable investments:				
U.S. limited partnerships and corporations	37,006,362	26,271,330	37,001,875	40,397,786
Foreign investment corporations	16,843,495	13,965,302	21,100,000	23,779,862
Common collective trusts	4,748,844	3,156,693	4,748,844	5,106,621
Total investments	\$ 73,867,643	57,926,077	98,664,622	103,353,400

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, which 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. At March 31, 2009, the Foundation has no unfunded commitments to nonreadily marketable investments.

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Effective April 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for financial assets and liabilities measured at fair value on a recurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that trade less frequently than exchange-traded instruments. This category generally includes nonreadily marketable investments where the Foundation has full visibility and quoted prices in active markets can be obtained for the underlying investments.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and nonreadily marketable investments where full visibility is not provided.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Foundation's financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset and do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values for the Foundation's fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The Foundation's fixed maturity securities

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portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities, bond mutual funds, equity mutual funds, and common collective trusts have been determined by the Foundation from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes. The Foundation's interest in the shares of U.S. limited partnerships and corporations and foreign investment corporations are recorded at the net asset per share, which approximates fair value.

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2009. Level 3 assets comprised approximately 51% of the Foundation's total investments carried at fair value.

	Fair value	Fair value measurements at March 31 using		
		Level 1	Level 2	Level 3
Investments				
Equity securities	\$ 6,486,121	6,486,121	—	—
Bond mutual funds	4,741,971	4,741,971	—	—
Equity mutual funds	3,304,660	3,304,660	—	—
Common collective trusts	3,156,693	—	3,156,693	—
U.S. limited partnerships and corporations	26,271,330	—	10,689,510	15,581,820
Foreign investment corporations	13,965,302	—	—	13,965,302
	<u>\$ 57,926,077</u>	<u>14,532,752</u>	<u>13,846,203</u>	<u>29,547,122</u>

The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the period April 1, 2008 to March 31, 2009.

	Level 3 investments		
	U.S. limited partnerships and corporations	Foreign investment corporations	Total
Beginning balance April 1, 2008	\$ 23,230,779	23,779,862	47,010,641
Investment losses	(3,682,789)	(5,183,560)	(8,866,349)
Purchases, sales, issuances and settlements	(3,966,170)	(4,631,000)	(8,597,170)
Ending balance March 31, 2009	<u>\$ 15,581,820</u>	<u>13,965,302</u>	<u>29,547,122</u>

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(4) Furniture and Equipment

Furniture and equipment as of March 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Computer equipment	\$ 52,495	48,233
Furniture	12,373	10,878
	<u>64,868</u>	<u>59,111</u>
Less accumulated depreciation	27,130	13,040
Furniture and equipment, net	<u>\$ 37,738</u>	<u>46,071</u>

(5) Prepaid Excise Taxes

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 1% for the years ended March 31, 2009 and 2008.

(6) 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, was held in escrow for the satisfaction of any claims arising from the agreement. During 2008, \$2,500,000 of the escrowed funds were released to the Foundation and a purchase price adjustment of (\$322,878) was recorded. During fiscal year 2009, the final purchase price of \$68,514,687 was agreed to by both parties and the remaining escrowed funds plus accrued interest were released to Sentara.

(7) Other Assets

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

(8) Commitments

The Foundation has an office lease that expires in fiscal year 2010. During fiscal years 2009 and 2008, the Foundation incurred rent expense of \$38,741 and \$33,953, respectively. Minimum rentals due in 2010 under this agreement are \$37,222.

During fiscal year 2009, the Foundation entered into a construction contract to build an office building to house the Foundation's principle offices. Total estimated cost to complete the project in fiscal year 2010 is \$1,978,000.

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(9) Retirement Plan

The Foundation has a qualified employee benefit 403(b) retirement plan intended to comply with all applicable federal laws and regulations, including the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974. The Foundation makes both matching and nonmatching discretionary contributions to the individual accounts of eligible employees. Contributions are based on compensation during the calendar year. The Foundation contributed during fiscal years 2009 and 2008 \$22,914 and \$21,458, respectively.

(10) Subsequent Event

On May 29, 2009 the Foundation entered into an unsecured note with a bank in the amount of \$1,850,000. The repayment schedule consists of nine monthly payments of accrued interest followed by 110 monthly installments of principal and interest of \$11,136 and a final payment due May 31, 2019. The note contains a fixed interest rate of 3.92% for the term of the loan. The note is collateralized by certain investments and cash and contains certain restrictive covenants, including the maintenance of certain minimum asset and net asset balances.