



OBICI HEALTHCARE FOUNDATION, INC.

Financial Statements

March 31, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1900
440 Monticello Avenue
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, 2011 and 2010, 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, 2011 and 2010, 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.

KPMG LLP

August 30, 2011

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Financial Position

March 31, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 5,189,721	12,342,993
Accrued interest and dividends receivable	18,283	18,971
Total current assets	5,208,004	12,361,964
Investments (note 3)	99,078,709	82,274,613
Property, plant and equipment, net (note 4)	2,207,697	2,231,705
Other assets (note 6)	723,483	713,222
Total assets	\$ 107,217,893	97,581,504
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses (note 5)	\$ 81,037	132,392
Healthcare grants payable	1,273,994	1,790,528
Current portion of long-term debt (note 7)	63,289	57,338
Total current liabilities	1,418,320	1,980,258
Long-term debt, excluding current portion (note 7)	1,729,373	1,792,662
Deferred federal excise taxes (note 5)	199,059	—
Total liabilities	3,346,752	3,772,920
Unrestricted net assets	103,871,141	93,808,584
Total liabilities and net assets	\$ 107,217,893	97,581,504

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Activities

Years ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues, gains, and other support:		
Investment income:		
Interest and dividends	\$ 832,537	460,224
Net realized and unrealized gains on investments	<u>12,484,588</u>	<u>25,272,057</u>
Investment income before investment fees, net	13,317,125	25,732,281
Less investment fees	<u>602,889</u>	<u>517,466</u>
Investment income, net	12,714,236	25,214,815
Unrestricted contributions	<u>29,000</u>	—
Total revenues, gains, and others support	<u>12,743,236</u>	<u>25,214,815</u>
Expenses:		
Healthcare grants	1,394,385	1,145,811
Program and administrative (note 8)	<u>1,065,077</u>	<u>849,178</u>
	2,459,462	1,994,989
Provision for federal excise taxes (note 5)	<u>221,217</u>	<u>15,096</u>
Total expenses	<u>2,680,679</u>	<u>2,010,085</u>
Increase in net assets	10,062,557	23,204,730
Unrestricted net assets, beginning of year	<u>93,808,584</u>	<u>70,603,854</u>
Unrestricted net assets, end of year	<u>\$ 103,871,141</u>	<u>93,808,584</u>

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Cash Flows

Years ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 10,062,557	23,204,730
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	114,818	25,360
Net realized and unrealized gains on investments	(12,484,588)	(25,272,057)
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	688	2,433
Other assets	(10,261)	(21,922)
Accounts payable and accrued expenses	(51,355)	100,141
Healthcare grants payable	(516,534)	(1,616,266)
Deferred federal excise taxes	199,059	—
Net cash used in operating activities	<u>(2,685,616)</u>	<u>(3,577,581)</u>
Cash flows from investing activities:		
Purchases of investments	(26,510,516)	(27,446,365)
Sales of investments	22,191,008	28,369,886
Purchases of property and equipment	(90,810)	(2,046,555)
Net cash used in investing activities	<u>(4,410,318)</u>	<u>(1,123,034)</u>
Cash flows from financing activities:		
Net proceeds from issuance of long-term debt	1,850,000	1,850,000
Payment of long term debt	(1,907,338)	—
Net cash provided by (used in) financing activities	<u>(57,338)</u>	<u>1,850,000</u>
Net decrease in cash and cash equivalents	(7,153,272)	(2,850,615)
Cash and cash equivalents at beginning of year	<u>12,342,993</u>	<u>15,193,608</u>
Cash and cash equivalents at end of year	<u>\$ 5,189,721</u>	<u>12,342,993</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 65,123	61,642
Supplemental disclosure of noncash operating and investing activities:		
Transfer to property and equipment from other assets	\$ —	172,772

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Notes to Financial Statements

March 31, 2011 and 2010

(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.

(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, as provided by external investment managers without further adjustment as the practical expedient estimate of fair value. Accordingly, such carrying values could differ materially from the values that would have been used had a ready market for the investments existed. The net asset values provided by the managers are reviewed and evaluated by Foundation personnel.

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. In computing the realized and unrealized gain or loss, cost has been determined on the specific identification method.

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) *Property, Plant and Equipment*

Property, plant 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 forty five years. Routine maintenance and repairs are charged to expense when incurred.

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(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, 2011 and 2010, 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, 2011, 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 statements 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) 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 during the years ended March 31, 2011 and 2010.

The Foundation recognizes or derecognizes its tax positions based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Foundation does not believe its financial statements include or reflect any uncertain tax positions.

(j) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accrued interest and dividends receivable, accounts payable and accrued expenses, healthcare grants payable, and current portion of long-term debt in the statement of financial position approximate fair value because of the short maturity of

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these instruments. The carrying value of the Foundation's long-term debt approximates its fair value due to current interest rates. Investments are carried at fair value as discussed in footnote 2c.

(k) 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.

(l) Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit and/or market risk consist 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.

(m) Subsequent Events

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires entities to evaluate events that occur after the balance sheet date but before financial statements are issued for potential recognition or disclosure. Entities are required to disclose the date through which subsequent events were evaluated, as well as the rationale for why that date was selected. In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 30, 2011, the date the financial statements were available to be issued, and determined that all items are appropriately disclosed.

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Notes to Financial Statements

March 31, 2011 and 2010

(3) Investments

The Foundation's investments at March 31, 2011 and 2010 are as follows:

	2011		2010	
	Cost	Fair value	Cost	Fair value
Readily marketable investments:				
Equity securities	\$ 15,947,217	20,343,127	8,766,125	11,530,668
Bond mutual funds	2,751,320	2,813,359	4,922,845	5,152,396
Equity mutual funds	10,717,192	13,195,459	7,823,435	8,886,640
Nonreadily marketable investments:				
U.S. limited partnerships and corporations	23,000,000	28,918,777	29,000,000	30,394,308
Foreign investment corporations	17,008,233	21,362,097	13,597,207	15,718,765
Common collective trusts	9,748,844	12,445,890	9,748,844	10,591,836
Total investments	\$ 79,172,806	99,078,709	73,858,456	82,274,613

Net unrealized gains (losses) included in change in net assets relating to assets held at March 31, 2011 and 2010 totaled \$9,087,155 and \$24,357,723, respectively.

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. At March 31, 2011, the Foundation has no unfunded commitments to nonreadily marketable investments. Certain nonreadily marketable investments also contain liquidity restrictions ranging from less than one month to more than one year, which are as follows:

	Liquidity restrictions		
	One month or less	Quarterly	More than one year
U.S. limited partnerships and corporations	\$ 14,604,090	6,572,064	7,742,623
Foreign investment corporations	8,233	13,161,783	8,192,081
Common collective trusts	12,445,890	—	—
	\$ 27,058,213	19,733,847	15,934,704

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon a three-tier fair value hierarchy. 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. The fair

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value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These tiers include:

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; quoted 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 the ability to redeem its investment with the investee at net asset value per share on a monthly or quarterly basis.

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 nonreadily marketable investments where the Foundation has the ability to redeem its investment with the investee on an annual or greater basis.

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 does 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 of equity securities, bond mutual funds, and equity mutual funds have been determined by the Foundation from observable market quotations. The Foundation's interest in the shares of common collective trusts, U.S. limited partnerships and corporations and foreign investment corporations is recorded at the net asset value per share, as provided by external investment managers without further adjustment as the practical expedient estimate of fair value.

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The following tables present the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of March 31, 2011 and 2010. Level 3 assets comprised approximately 8% of the Foundation's total investments carried at fair value at March 31, 2011 and 2010. There were no transfers in or out of levels one and two during the years ended March 31, 2011 and 2010.

	2011			
	Fair value	Fair value measurements at March 31 using		
		Level 1	Level 2	Level 3
U.S. equity securities:				
Large cap equity securities	\$ 4,095,638	4,095,638	—	—
Mid cap equity securities	7,508,424	7,508,424	—	—
Small cap equity securities	8,739,065	8,739,065	—	—
Total U.S. equity securities	<u>20,343,127</u>	<u>20,343,127</u>	<u>—</u>	<u>—</u>
Bond mutual funds:				
Global corporate bonds	952,939	952,939	—	—
U.S. corporate bonds	1,860,420	1,860,420	—	—
Total bond mutual funds	<u>2,813,359</u>	<u>2,813,359</u>	<u>—</u>	<u>—</u>
Equity mutual funds:				
U.S. equity securities – large cap	7,849,446	7,849,446	—	—
U.S. equity securities – utilities	683,329	683,329	—	—
U.S. REITs	683,329	683,329	—	—
U.S. convertibles and other	683,329	683,329	—	—
Commodity inflation – index funds	3,296,026	3,296,026	—	—
Total equity mutual funds	<u>13,195,459</u>	<u>13,195,459</u>	<u>—</u>	<u>—</u>
Common collective trusts:				
Small cap international equity securities	6,426,015	—	6,426,015	—
Large cap international equity securities	6,019,875	—	6,019,875	—
Total common collective trusts	<u>12,445,890</u>	<u>—</u>	<u>12,445,890</u>	<u>—</u>
U.S. limited partnerships and corporations:				
International closed end funds	6,159,905	—	6,159,905	—

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		2011		
		Fair value measurements at March 31 using		
	Fair value	Level 1	Level 2	Level 3
Global equity securities	\$ 15,016,249	—	15,016,249	—
U.S. equity fund of hedge funds	7,742,623	—	—	7,742,623
Total limited partnerships and corporations	28,918,777	—	21,176,154	7,742,623
Foreign investment corporations:				
Equity hedge fund – emerging markets	4,026,817	—	4,026,817	—
U.S. equity fund of hedge funds	5,683,399	—	5,683,399	—
Long/short equity hedge fund – asian markets	3,451,567	—	3,451,567	—
Global long/short equity hedge fund	3,458,922	8,233	3,450,689	—
U.S. credit markets	4,741,392	—	4,741,392	—
Total foreign investment corporations	21,362,097	8,233	21,353,864	—
	<u>\$ 99,078,709</u>	<u>36,360,178</u>	<u>54,975,908</u>	<u>7,742,623</u>
		2010		
		Fair value measurements at March 31 using		
	Fair value	Level 1	Level 2	Level 3
U.S. equity securities:				
Mid cap equity securities	\$ 6,288,048	6,288,048	—	—
Small cap equity securities	5,242,620	5,242,620	—	—
Total U.S. equity securities	11,530,668	11,530,668	—	—
Bond mutual funds:				
Global corporate bonds	939,298	939,298	—	—
U.S. corporate bonds	4,213,098	4,213,098	—	—
Total bond mutual funds	5,152,396	5,152,396	—	—
Equity mutual funds:				
U.S. equity securities – large cap	6,488,369	6,488,369	—	—
Commodity inflation – index funds	2,398,271	2,398,271	—	—
Total equity mutual funds	8,886,640	8,886,640	—	—

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	2010			
	Fair value	Fair value measurements at March 31 using		
		Level 1	Level 2	Level 3
Common collective trusts:				
Small cap international equity securities	\$ 5,365,585	—	5,365,585	—
Large cap international equity securities	5,226,251	—	5,226,251	—
Total common collective trusts	10,591,836	—	10,591,836	—
U. S. limited partnerships and corporations:				
U.S. mid cap equity securities	5,563,574	—	5,563,574	—
International closed end funds	5,272,072	—	5,272,072	—
Global equity securities	12,787,203	—	12,787,203	—
U.S. equity fund of hedge funds	6,771,459	—	—	6,771,459
Total limited partnerships and corporations	30,394,308	—	23,622,849	6,771,459
Foreign investment corporations:				
Equity hedge fund – emerging markets	3,967,081	—	3,967,081	—
U.S. equity fund of hedge funds	4,440,750	—	4,440,750	—
Global long/short equity hedge fund	3,360,206	442,862	2,917,344	—
U.S. credit markets	3,950,728	—	3,950,728	—
Total foreign investment corporations	15,718,765	442,862	15,275,903	—
	\$ 82,274,613	26,012,566	49,490,588	6,771,459

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The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the years ended March 31, 2010 and 2011.

	Level 3 investments U.S. limited partnerships and corporations
March 31, 2009	\$ 8,767,198
Net realized and unrealized gains included in change in net assets	1,993,474
Purchases, sales, issuances and settlements	<u>(3,989,213)</u>
March 31, 2010	6,771,459
Net realized and unrealized gains included in change in net assets	<u>971,164</u>
March 31, 2011	\$ <u><u>7,742,623</u></u>

(4) Property, Plant and Equipment

Property, plant and equipment as of March 31, 2011 and 2010 consist of the following:

	2011	2010
Land	\$ 102,507	102,507
Land improvements	413,486	349,632
Building	1,616,468	1,594,183
Equipment	124,512	121,566
Furniture and fixtures	<u>118,032</u>	<u>116,307</u>
	2,375,005	2,284,195
Less accumulated depreciation	<u>167,308</u>	<u>52,490</u>
Property, plant and equipment, net	\$ <u><u>2,207,697</u></u>	<u><u>2,231,705</u></u>

(5) Federal Excise Taxes

The Foundation is subject to an excise tax of 1% or 2% on its net investment income. 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, 2011 and 2010. A deferred federal excise tax liability is estimated based on cumulative net unrealized gains as of year-end.

(6) Other Assets

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

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(7) Long-Term Debt

On May 29, 2009, the Foundation issued an unsecured note with a bank in the amount of \$1,850,000. The repayment schedule consisted 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 contained a fixed interest rate of 3.92% for the term of the loan. Total interest of \$58,085 was capitalized during the year ended March 31, 2010.

On April 7, 2010, the Foundation refinanced the existing note with the bank through the issuance by the Economic Development Authority of the City of Suffolk of its Revenue Bond (Obici Healthcare Foundation Inc.) Series 2010 in the amount of \$1,850,000. The repayment schedule consists of 111 monthly installments of principal and interest of \$11,133 and a final payment due July 1, 2019. The note contains a fixed interest rate of 3.92% for the term of the bond. The bond contains certain restrictive covenants, including the maintenance of certain minimum asset and net asset balances. The Foundation was in compliance with these covenants as of March 31, 2011 and 2010. The principal repayments of the bond are as follows:

2012	\$	63,289
2013		66,040
2014		68,713
2015		71,494
2016		74,230
Thereafter		<u>1,448,896</u>
	\$	<u><u>1,792,662</u></u>

(8) 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 Code, 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 \$23,121 and \$22,236 during fiscal years 2011 and 2010, respectively.