



OBICI HEALTHCARE FOUNDATION, INC.

Financial Statements

March 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



KPMG LLP
2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510-3310

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, 2010 and 2009, 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, 2010 and 2009, 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 25, 2010

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Financial Position

March 31, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 12,342,993	15,193,608
Accrued interest and dividends receivable	18,971	21,404
Total current assets	12,361,964	15,215,012
Investments (note 3)	82,274,613	57,926,077
Property, plant and equipment, net (note 4)	2,231,705	37,738
Other assets (notes 5 and 6)	713,222	864,072
Total assets	\$ 97,581,504	74,042,899
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 132,392	32,251
Healthcare grants payable	1,790,528	3,406,794
Current portion of long-term debt (note 7)	57,338	—
Total current liabilities	1,980,258	3,439,045
Long-term debt, excluding current portion (note 7)	1,792,662	—
Total liabilities	3,772,920	3,439,045
Unrestricted net assets	93,808,584	70,603,854
Total liabilities and net assets	\$ 97,581,504	74,042,899

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Activities

Years ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues, gains (losses), and other support–		
Investment income:		
Interest and dividends	\$ 460,224	631,014
Net realized and unrealized gains (losses) on investments	<u>25,272,057</u>	<u>(26,309,551)</u>
Investment income (loss) before investment fees, net	25,732,281	(25,678,537)
Less investment fees	<u>517,466</u>	<u>509,674</u>
Investment income (loss), net	<u>25,214,815</u>	<u>(26,188,211)</u>
Expenses:		
Healthcare grants	1,145,811	3,165,002
Program and administrative (note 8)	<u>849,178</u>	<u>882,625</u>
	1,994,989	4,047,627
Provision for federal excise taxes (note 5)	<u>15,096</u>	<u>12,138</u>
Total expenses	<u>2,010,085</u>	<u>4,059,765</u>
Increase (decrease) in net assets	23,204,730	(30,247,976)
Unrestricted net assets, beginning of year	<u>70,603,854</u>	<u>100,851,830</u>
Unrestricted net assets, end of year	<u>\$ 93,808,584</u>	<u>70,603,854</u>

See accompanying notes to financial statements.

OBICI HEALTHCARE FOUNDATION, INC.

Statements of Cash Flows

Years ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 23,204,730	(30,247,976)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	25,360	14,090
Net realized and unrealized losses (gains) on investments	(25,272,057)	26,309,551
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	2,433	(10,324)
Other assets	(27,500)	(154,997)
Accounts payable and accrued expenses	100,141	(27,847)
Healthcare grants payable	(1,616,266)	(1,669,974)
Prepaid excise taxes	5,578	9,952
Deferred contribution revenue	—	(2,848,593)
Net cash used in operating activities	<u>(3,577,581)</u>	<u>(8,626,118)</u>
Cash flows from investing activities:		
Purchases of investments	(27,446,365)	(23,784,169)
Sales of investments	28,369,886	42,901,941
Purchases of property and equipment	(2,046,555)	(5,757)
Net cash provided by (used in) investing activities	<u>(1,123,034)</u>	<u>19,112,015</u>
Cash flows provided by financing activities—		
Net proceeds from issuance of long-term debt	1,850,000	—
Net increase (decrease) in cash and cash equivalents	<u>(2,850,615)</u>	<u>10,485,897</u>
Cash and cash equivalents at beginning of year	<u>15,193,608</u>	<u>4,707,711</u>
Cash and cash equivalents at end of year	<u>\$ 12,342,993</u>	<u>15,193,608</u>
Supplemental disclosures of cash flow information:		
Cash paid for excise taxes	\$ —	2,186
Cash paid for interest, including \$58,085 capitalized interest	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, 2010 and 2009

(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, 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.

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.

OBICI HEALTHCARE FOUNDATION, INC.

Notes to Financial Statements

March 31, 2010 and 2009

(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, 2010 and 2009, 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, 2010, 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, 2010 and 2009.

Effective April 1, 2009, the Foundation adopted the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes* (ASC 740). ASC 740 requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The adoption of ASC 740 had no impact on the statement of financial position as of March 31, 2010 or on the statement of activities for the year ended March 31, 2010. The Foundation does not believe its financial statements include or reflect any uncertain tax positions.

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Notes to Financial Statements

March 31, 2010 and 2009

(j) ***Fair Value of Financial Instruments***

The carrying amounts of cash and cash equivalents, accrued interest and dividend receivable, investments, 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 these instruments. The carrying value of the Foundation's long-term debt approximates its fair value due to current interest rates.

(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) ***New Accounting Pronouncements***

Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles (GAAP) – a replacement of FASB Statement No. 162*. Beginning in September 2009, all existing accounting standard documents were superseded and the FASB ASC became the single source of authoritative GAAP recognized by the FASB for nongovernmental entities. The FASB no longer issues new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. FASB accounting standard issuances are now issued as amendments to the ASC and referred to as Accounting Standards Updates. The adoption of the ASC had no impact on the Foundation's financial position, activities, or cash flows.

Subsequent Events

In May 2009, the FASB issued new guidance related to subsequent events that establishes general standards of accounting for and disclosures of events that occur after the statement of financial

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position date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated, as well as the rationale for why that date was selected. The adoption of this guidance in 2010 did not materially impact the Foundation's financial position, activities, or cash flows. In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 25, 2010, the date the financial statements were available to be issued.

(3) Investments

The Foundation's investments at March 31, 2010 and 2009 are as follows:

	2010		2009	
	Cost	Fair value	Cost	Fair value
Readily marketable investments:				
Equity securities	\$ 8,766,125	11,530,668	6,766,921	6,486,121
Bond mutual funds	4,922,845	5,152,396	4,729,371	4,741,971
Equity mutual funds	7,823,435	8,886,640	3,772,650	3,304,660
Nonreadily marketable investments:				
U.S. limited partnerships and corporations	29,000,000	30,394,308	37,006,362	26,271,330
Foreign investment corporations	13,597,207	15,718,765	16,843,495	13,965,302
Common collective trusts	9,748,844	10,591,836	4,748,844	3,156,693
Total investments	\$ 73,858,456	82,274,613	73,867,643	57,926,077

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, 2010, the Foundation has no unfunded commitments to nonreadily marketable investments.

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 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.

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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 and liabilities measured at fair value on a recurring basis as of March 31, 2010 and 2009. Level 3 assets comprised approximately 8% and 15% of the Foundation's total investments carried at fair value at March 31, 2010 and 2009, respectively.

	2010			
	Fair value	Fair value measurements at March 31 using		
		Level 1	Level 2	Level 3
Equity securities	\$ 11,530,668	11,530,668	—	—
Bond mutual funds	5,152,396	5,152,396	—	—
Equity mutual funds	8,886,640	8,886,640	—	—
Common collective trusts	10,591,836	—	10,591,836	—
U.S. limited partnerships and corporations	30,394,308	—	23,622,849	6,771,459
Foreign investment corporations	15,718,765	442,862	15,275,903	—
	<u>\$ 82,274,613</u>	<u>26,012,566</u>	<u>49,490,588</u>	<u>6,771,459</u>

	2009			
	Fair value	Fair value measurements at March 31 using		
		Level 1	Level 2	Level 3
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	—	17,504,132	8,767,198
Foreign investment corporations	13,965,302	—	13,965,302	—
	<u>\$ 57,926,077</u>	<u>14,532,752</u>	<u>34,626,127</u>	<u>8,767,198</u>

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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, 2009 and 2010.

	Level 3 investments U.S. limited partnerships and corporations
April 1, 2008	\$ 10,657,473
Net realized and unrealized losses included in change in net assets	(1,712,214)
Purchases, sales, issuances and settlements	<u>(178,061)</u>
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	\$ <u><u>6,771,459</u></u>

Net unrealized gains (losses) included in change in net assets relating to assets held at March 31, 2010 and 2009 totaled \$24,357,723 and \$(20,630,344), respectively.

(4) Property, Plant and Equipment

Property, plant and equipment as of March 31, 2010 and 2009 consist of the following:

	2010	2009
Land	\$ 102,507	—
Land improvements	349,632	—
Building	1,594,183	—
Equipment	121,566	52,495
Furniture and fixtures	<u>116,307</u>	<u>12,373</u>
	2,284,195	64,868
Less accumulated depreciation	<u>52,490</u>	<u>27,130</u>
Property, plant and equipment, net	\$ <u><u>2,231,705</u></u>	<u><u>37,738</u></u>

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Notes to Financial Statements

March 31, 2010 and 2009

(5) Federal 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, 2010 and 2009.

(6) Other Assets

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

(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 expense 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 principal repayments of the bond are as follows:

2011	\$	57,338
2012		63,290
2013		66,040
2014		68,713
2015		71,494
Thereafter		<u>1,523,125</u>
	\$	<u><u>1,850,000</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 \$22,236 and \$22,914 during fiscal years 2010 and 2009, respectively.