

**THE HENRY W. GRADY HEALTH
SYSTEM FOUNDATION, INC.**

FINANCIAL STATEMENTS

December 31, 2009

**with
Independent Auditors' Report**

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Henry W. Grady Health System Foundation, Inc.

We have audited the accompanying statement of financial position of The Henry W. Grady Health System Foundation, Inc. (the "Foundation") as of December 31, 2009, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 The Henry W. Grady Health System Foundation, Inc. as of December 31, 2009, and the changes in its net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



GIFFORD, HILLEGASS & INGWERSEN, LLP

May 3, 2010
Atlanta, Georgia

770.396.1100 MAIN
770.393.0319 FAX

Six Concourse Parkway
Suite 600
Atlanta, GA 30328-5351

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2009

ASSETS	
Cash and cash equivalents	\$ 9,185,428
Investments	3,670,415
Accounts receivable	5,822,651
Prepaid expenses	28,936
Unconditional promises to give	14,354,075
Property and equipment	<u>97,655</u>
TOTAL ASSETS	<u><u>\$ 33,159,160</u></u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	<u>\$ 1,630,246</u>
TOTAL LIABILITIES	<u>1,630,246</u>
Net Assets	
Unrestricted	
Board designated	382,938
Undesignated	<u>992,195</u>
	1,375,133
Temporarily restricted	30,136,168
Permanently restricted	<u>17,613</u>
TOTAL NET ASSETS	<u>31,528,914</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 33,159,160</u></u>

The accompanying notes are an integral part of these financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues				
Contributions	\$ 196,836	\$ 29,089,719	\$ -	\$ 29,286,555
Grant revenue	-	157,824	-	157,824
Investment income - undesignated	10,443	-	-	10,443
Investment income - board designated	191,881	-	-	191,881
Hospital support	1,013,621	-	-	1,013,621
Gifts in-kind	32,295	177,915	-	210,210
Special events	108,426	54,650	-	163,076
Other revenues - undesignated	51,763	-	-	51,763
Other revenues - board designated	191,057	-	-	191,057
Net assets released from restrictions	6,749,917	(6,749,917)	-	-
Total public support and revenues	8,546,239	22,730,191	-	31,276,430
Expenses				
Program services				
Support to Grady Health System	145,879	-	-	145,879
Social services programs	3,930,402	-	-	3,930,402
Health and medical programs	2,062,670	-	-	2,062,670
Education and training programs	481,638	-	-	481,638
Other	205,857	-	-	205,857
Total program expenses	6,826,446	-	-	6,826,446
Support services				
Management and general	2,201,043	-	-	2,201,043
Fundraising	460,662	-	-	460,662
Total support services	2,661,705	-	-	2,661,705
Total expenses	9,488,151	-	-	9,488,151
Change in net assets	(941,912)	22,730,191	-	21,788,279
NET ASSETS AT BEGINNING OF YEAR	2,317,045	7,405,977	17,613	9,740,635
NET ASSETS AT END OF YEAR	\$ 1,375,133	\$ 30,136,168	\$ 17,613	\$ 31,528,914

The accompanying notes are an integral part of these financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2009

Cash Flows from Operating Activities	
Change in net assets	\$ 21,788,279
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation expense	7,619
Unrealized loss on investments	25,688
Gain on sale of investments	(84,027)
Loss on disposal of equipment	1,065
Increase in assets	
Accounts receivable	(5,557,236)
Unconditional promises to give	(14,256,575)
Other assets	(18,443)
Decrease in liabilities	
Accounts payable	(588,061)
Accrued expenses	(56,618)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,261,691</u>
Cash Flows from Investing Activities	
Equipment purchases	(26,320)
Investments, net	(111,375)
NET CASH USED IN INVESTING ACTIVITIES	<u>(137,695)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,123,996
Cash and Cash Equivalents at Beginning of Year	<u>8,061,432</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 9,185,428</u></u>

The accompanying notes are an integral part of these financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE A—DESCRIPTION OF BUSINESS

The Henry W. Grady Health System Foundation, Inc. (the “Foundation”) was incorporated on May 13, 1993, as a not-for-profit organization for the purpose of promoting the developing quality health care for the Fulton DeKalb Hospital Authority (the “Authority”) doing business as Grady Health System. In May 2008 the hospital operations transferred to the Grady Memorial Hospital Corporation (GMHC or the “Hospital”) but the relationship with the hospital operations continued.

The major source of support for ongoing services is contributions from the general public. The major programs funded by the Foundation on a recurring basis are the health and medical programs of GMHC including Teen Services, the Grady Cancer Center and the Pharmacy Center.

The Foundation is in the process of conducting *The Greater Grady Campaign* to benefit GHMC. The campaign is focused on developing exemplary service lines and equipment, enhancing clinical programs, and overdue facility upgrades.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Issued Accounting Standards: In June 2009, the FASB issued FASB ASC 105, *Generally Accepted Accounting Principles*, which established the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Foundation has updated references to generally accepted accounting principles (GAAP) in its financial statements. The adoption of FASB ASC 105 did not impact the Foundation’s financial position or changes in net assets.

Basis of Accounting: Under U.S. generally accepted accounting principles net assets and revenues, expenses, gains and losses are accounted for and classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets include amounts that are not subject to donor-imposed stipulations which are used to account for resources available to carry out the general purposes of the Foundation in accordance with the limitations of its bylaws. The principal sources of unrestricted funds are contributions, Hospital support (see Note F) and investment income.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Temporarily restricted net assets are those resources available for use, but whose use by the Foundation is limited by donor-imposed stipulations that either expire through the passage of time or can be fulfilled through action by the Foundation. When a donor or grantor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent net assets resulting from contributions whose use by the Foundation is limited by donor-imposed stipulations that do not expire.

Contributions and Unconditional Promises to Give: Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give are recorded as received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using interest rates applicable to the years in which the promises are received to discount the amounts. Under ASC 820, *Fair Value Measurements and Disclosures*, the Foundation used a risk free discount rate for the year ended December 31, 2009. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end.

In Kind Contributions: Contributed goods and services are recognized if they create or enhance nonfinancial assets or if they require specialized skills and would typically be purchased if not provided by donation. Contributed goods and services for the year ended December 31, 2009 amounted to approximately \$210,000 for architectural and design services, training and development, other services and donated items.

Revenue Recognition: Revenue for meeting registration and seminars is recognized as services are performed. Grant revenue is recognized when grants are awarded.

Cash and Cash Equivalents: Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months at inception or originators. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Investments: Investments are carried at market in accordance with FASB ASC 958, *Investments – Debt and Equity Securities for Not-for-Profit Organizations*. Under the ASC 820, *Fair Value Measurements and Disclosures*, fair value measurements are disclosed by level within the fair value hierarchy. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level II: Valuations based on quoted prices in markets that are not active or based on valuation models for which all significant inputs are observable, either directly or indirectly.

Level III: Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Level III investments include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

All of the Foundation's investments are Level I investments.

Accounts Receivable: Accounts receivable relate to a receivable from GMHC for contributions received on pledges recorded by the Foundation (see further discussion of these transactions in Note F). Management evaluates the collectibility of accounts receivable annually. In the opinion of management, as of December 31, 2009, all accounts receivable were collectible and no allowance for uncollectible receivables was necessary.

Property and Equipment: Acquisitions of property and equipment in excess of \$500 are capitalized at cost. Donated assets are recorded at their fair values at the date of donation based on independent appraisals. Property and equipment are depreciated using the straight-line method over estimated useful lives. The estimated useful lives for furniture and fixtures and computer equipment is five years. Artwork is not a depreciable asset.

Fair Value of Financial Instruments: Financial instruments, primarily cash, receivables, and accounts payable are reported at values which the Foundation believes are not significantly different from fair values. Management believes no significant credit risk exists with respect to any of its financial instruments.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Uninsured Cash Balances: The Foundation maintains its cash in bank deposit accounts at financial institutions. Cash accounts at each bank are insured by the FDIC for up to statutory limits. The Foundation's cash balances periodically exceed the federally insured limit.

Functional Allocation of Expenses: The costs of providing the Foundation's programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Taxes: The Foundation is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is classified as an organization which is not a private foundation under Section 509(a) of the U.S. Internal Revenue Code. The Foundation qualifies for the charitable contribution deduction. Effective January 1, 2009, the Foundation adopted FASB Interpretation No. 48, an interpretation of FASB Accounting Standards Codification (ASC) 740, to account for uncertainty in income taxes. There was no impact on the financial position or changes in net assets from adoption. Management does not believe there are any uncertain tax positions at December 31, 2009.

The Foundation could be subject to income tax examinations for its U.S. federal tax filings for the current tax year and previous filings for years 2008, 2007, and 2006 still open under the statute of limitations.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

Events Occurring After Report Date: Management has evaluated events and transactions that occurred between December 31, 2009 and May 3, 2010 which is the date that the financial statements were available to be issued for possible recognition or disclosure in the financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE C—PROMISES TO GIVE

Unconditional promises to give at December 31, 2009 are as follows:

Year ending June 30,		
2010	\$	8,063,334
2011		4,038,333
2012		1,888,333
2013		1,055,000
2014		80,000
Total		<u>15,125,000</u>
Less: Discount to net present value		(480,025)
Allowance for doubtful accounts		<u>(290,900)</u>
Net unconditional promises to give	\$	<u><u>14,354,075</u></u>

Promises to give with due dates extending beyond one year are discounted using US Treasury security rates plus 2% for similar term investments. The applicable US Treasury rate at December 31, 2009 was 0.47%.

NOTE D—INVESTMENTS

The Foundation's investments at December 31, 2009 are comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>
Mutual Fund	\$ 244,153	\$ 236,630
Collective Common Trust Funds	<u>3,303,564</u>	<u>3,433,785</u>
Total investments	<u>\$ 3,547,717</u>	<u>\$ 3,670,415</u>

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE D—INVESTMENTS—Continued

Investment income for the year ended December 31, 2009 is composed of:

Interest income, net of fees	\$ 143,985
Unrealized loss on investments	(25,688)
Realized gain on investments	<u>84,027</u>
Net Investment Income	<u>\$ 202,324</u>

The Board has designated a portion of the income from investments to be used towards GMHC programs. See Note G for further explanation.

NOTE E—PROPERTY AND EQUIPMENT

Property and equipment for the year ended December 31, 2009 is summarized as follows:

Computer Equipment	\$ 84,619
Furniture and Fixtures	41,821
Artwork	<u>73,970</u>
	200,410
Less Accumulated Depreciation	<u>(102,755)</u>
Total	<u>\$ 97,655</u>

NOTE F—RELATED PARTY TRANSACTIONS

Hospital Support: The Hospital provides staff assistance and certain other related services to the Foundation. Salaries, benefits, and other administrative expenses incurred by the Foundation and subsidized by the Hospital for the year ended December 31, 2009 was \$1,013,621. The Foundation has recognized these expenses as general and administrative expense and a corresponding amount has been recorded in the Statement of Activities as Hospital Support.

Receivable from Hospital: During 2009, as part of the capital campaign to raise funds for the Hospital, some payments towards unconditional promises to give were received by the Hospital. As of December 31, 2009 a receivable from the Hospital totaling \$5,812,558 was recorded representing amounts received and not yet remitted to the Foundation. The Foundation expects to receive these payments within one year.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE F—RELATED PARTY TRANSACTIONS—Continued

Support to the Hospital: The Foundation receives contributions from donors restricted to use at the Hospital. As of December 31, 2009 the amount due to the Hospital pertaining to donor restricted funds received for related program services support of the Hospital was \$1,260,685.

NOTE G—RESTRICTED AND DESIGNATED NET ASSETS

The components of the restricted net assets as of December 31, 2009 is as follows:

Temporarily Restricted Net Assets:

Capital improvements for GMHC	\$ 25,370,667
Fundraising	319,274
Various programs for GMHC	<u>4,446,227</u>
	<u>\$ 30,136,168</u>

Net assets restricted for capital improvements include \$14,354,075 in net assets that are also time restricted as follows:

2010	\$ 7,908,251
2011	3,739,862
2012	1,706,614
2013	930,491
2014	<u>68,857</u>
	<u>\$ 14,354,075</u>

Permanently Restricted Net Assets:

Endowment fund	<u>\$ 17,613</u>
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Income from the endowment fund is identified as Board designated and will be used to fund GMHC programs.

Board Designated Net Assets: The Board has designated that any investment income that is generated on temporarily restricted funds should be used for program purposes that are in line with the underlying gift's restrictions. In addition, the Board has designated that revenue from seminars be used for the GMHC department that assisted with the seminar. Total board designated net assets as of December 31, 2009 were \$382,938.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE H—LEASE COMMITMENTS

The Foundation has obligations under various non-cancelable operating leases for office space and equipment. Future minimum lease payments for the years ending December 31 are as follows:

2010	\$	86,428
2011		12,162
2012		4,793
2013		4,793
Thereafter		<u>5,192</u>
	\$	<u>113,368</u>

Rental expense under operating leases for the years ended December 31, 2009 amounted to approximately \$92,000. The lease for office space is subject to escalation based on increases in building operating expenses.