

MOSSES ADAMS



**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alliance Healthcare Foundation

We have audited the accompanying statements of financial position of Alliance Healthcare Foundation as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Alliance Healthcare 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 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 the 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 Alliance Healthcare Foundation as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
October 24, 2008

ALLIANCE HEALTHCARE FOUNDATION

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,698,729	\$ 1,445,887
Investments	83,177,947	87,667,374
Other	32,931	58,986
Total current assets	<u>84,909,607</u>	<u>89,172,247</u>
Property, Equipment, and Improvements, net	26,336	25,200
Supplemental Retirement Plan Investments	-	326,211
Charitable Gift Annuity - Real Estate	1,104,730	1,104,730
Charitable Remainder Trust	52,982	52,982
Total assets	<u>\$ 86,093,655</u>	<u>\$ 90,681,370</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 529,043	\$ 348,170
Total current liabilities	<u>529,043</u>	<u>348,170</u>
Supplemental Retirement Plan Liability	-	326,211
Total liabilities	<u>529,043</u>	<u>674,381</u>
Commitments (Notes 3, 6, 8, and 10)		
Net Assets		
Unrestricted	84,719,949	89,245,015
Temporarily restricted	844,663	761,974
Total net assets	<u>85,564,612</u>	<u>90,006,989</u>
Total liabilities and net assets	<u>\$ 86,093,655</u>	<u>\$ 90,681,370</u>

ALLIANCE HEALTHCARE FOUNDATION

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS, AND SUPPORT						
Net unrealized (loss) gain on investments	\$ (10,407,326)	\$ -	\$ (10,407,326)	\$ 11,673,483	\$ -	\$ 11,673,483
Dividends and interest, net of fees	1,646,710	-	1,646,710	1,536,487	-	1,536,487
Net realized gain on investments	9,107,804	-	9,107,804	580,425	-	580,425
Contributions	100	643,500	643,600	-	500,000	500,000
Other	106,539	-	106,539	41,223	-	41,223
SDHFC sponsorship	15,000	-	15,000	11,250	-	11,250
Change in value of split-interest agreements	-	(45,839)	(45,839)	-	(42,077)	(42,077)
Net assets released from restrictions	514,972	(514,972)	-	503,825	(503,825)	-
Total revenue, gains, and support	<u>983,799</u>	<u>82,689</u>	<u>1,066,488</u>	<u>14,346,693</u>	<u>(45,902)</u>	<u>14,300,791</u>
EXPENSES						
Program grants	3,258,967	-	3,258,967	2,217,338	-	2,217,338
Program services	774,409	-	774,409	633,829	-	633,829
Supporting services						
Management and general	1,287,489	-	1,287,489	805,750	-	805,750
Provision for federal excise taxes	188,000	-	188,000	272,000	-	272,000
Total expenses	<u>5,508,865</u>	<u>-</u>	<u>5,508,865</u>	<u>3,928,917</u>	<u>-</u>	<u>3,928,917</u>
CHANGE IN NET ASSETS	(4,525,066)	82,689	(4,442,377)	10,417,776	(45,902)	10,371,874
NET ASSETS						
Beginning of year	89,245,015	761,974	90,006,989	78,827,239	807,876	79,635,115
End of year	<u>\$ 84,719,949</u>	<u>\$ 844,663</u>	<u>\$ 85,564,612</u>	<u>\$ 89,245,015</u>	<u>\$ 761,974</u>	<u>\$ 90,006,989</u>

ALLIANCE HEALTHCARE FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES		
Change in net assets	\$ (4,442,377)	\$ 10,371,874
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	6,164	9,451
Net realized (gain) on investments	(9,107,804)	(580,425)
Net unrealized loss (gain) on investments	10,407,326	(11,673,483)
Change in value of split-interest agreements, net of payments to trust	-	(878)
Decrease (increase) in operating assets		
Other current assets	26,055	(33,167)
Increase in operating liabilities		
Accounts payable and accrued liabilities	180,873	130,791
Net cash (used in) operating activities	<u>(2,929,763)</u>	<u>(1,775,837)</u>
INVESTING ACTIVITIES		
Proceeds from sales of investments	5,103,313	3,319,681
Purchase of investments	(1,913,408)	(1,644,626)
Purchase of equipment	<u>(7,300)</u>	<u>(2,573)</u>
Net cash provided by investing activities	<u>3,182,605</u>	<u>1,672,482</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	252,842	(103,355)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,445,887</u>	<u>1,549,242</u>
End of year	<u>\$ 1,698,729</u>	<u>\$ 1,445,887</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for excise taxes	<u>\$ 29,089</u>	<u>\$ 99,445</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
(Decrease) increase in supplemental retirement plan investments and liability	<u>\$ (326,211)</u>	<u>\$ 36,236</u>

ALLIANCE HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Significant Accounting Policies

Alliance Healthcare Foundation (the “Foundation”), a California non-profit 501(c)(3) private foundation, was formed in December 1988. The Foundation makes grants to healthcare programs for the medically indigent and underserved, focusing primarily on the following public health issues: restricted access to healthcare, mental health, and community health. The Foundation primarily makes grants to organizations in San Diego County.

Income Tax Status: The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except for income taxes on unrelated business income. For the years ended June 30, 2008 and 2007, the Foundation was not subject to unrelated business income taxes. The Foundation is also subject to federal excise taxes imposed on private foundations at 2 percent (or 1 percent if certain conditions are met). The excise tax is imposed on net investment income, as defined under federal tax law, which includes interest and dividend income, and realized gains, net of investment expenses.

Method of Accounting: The financial statements are prepared on the accrual basis of accounting.

Financial Statement Presentation: The Foundation follows Financial Accounting Standards Board (“FASB”) Statement No. 117, *Financial Statements of Non-Profit Organizations*, for presentation of its financial statements, which requires that net assets be classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for generating investment income to fund current operations. The Foundation has no permanently restricted net assets as of June 30, 2008 or 2007.

Revenue Recognition

Contributions: Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor’s restriction. When a 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.

San Diego HIV Funding Collaborative (“SDHFC”) Sponsorship: The Foundation recognizes SDHFC sponsorship revenue when received (Note 5).

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

ALLIANCE HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Investments: In accordance with FASB Statement No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*, the Foundation carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Non-marketable securities (alternative investments) for which quoted market prices are not available are valued at fair value by the general partners of the partnership based on factors deemed relevant by the general partners including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer, and third-party transactions in the private market. The Foundation's management reviews and evaluates the values provided by third-party fund managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment fees for the years ended June 30, 2008 and 2007 were approximately \$1,600,000 and \$616,000, respectively, and are reported net of dividends and interest income in the statements of activities.

Property, Equipment, and Improvements: The Foundation capitalizes property, equipment, and improvements that cost greater than \$1,000. Property, equipment, and improvements are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated future lives for office furniture and fixtures, office equipment, and computer software are ten years, three to five years, and five years, respectively. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining term of the lease or estimated useful life.

Impairment of Long-lived Assets: The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Charitable Gift Annuity: The Foundation is the beneficiary of a charitable gift annuity (real estate) that provides for the payment of distributions to the donor of \$71,140 per annum over the beneficiary's lifetime. At the end of the gift's term, the remaining asset will be available for unrestricted use by the Foundation. The portion of the gift attributable to the present value of the future benefits to be received by the Foundation was recorded in the statement of activities as a temporarily restricted contribution in the year the gift was established. The real estate held in the charitable gift annuity is stated at \$1,104,730 in the Foundation's statements of financial position at June 30, 2008 and 2007, which is fair value at the date of the gift. The amount for the estimated future payments (approximately \$224,000 and \$236,000 at June 30, 2008 and 2007, respectively) is held in trust at Union Bank of California and is invested primarily in treasury bills. These amounts are not reported as assets of the Foundation.

The Foundation has the ultimate responsibility for payments to the beneficiary should the beneficiary outlive the actuarial assumptions. On an annual basis, the Foundation revalues its funding for these distributions based on actuarial assumptions. At June 30, 2008 and 2007, the trust required an additional approximately \$46,000 and \$43,000, respectively, from the Foundation in order to be funded in accordance with the State of California Department of Insurance's reserve requirement for annuities. These amounts are included in "change in value of split-interest agreements" in the statements of activities.

ALLIANCE HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Charitable Remainder Trust: The Foundation is the beneficiary of a charitable remainder trust which provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. At the end of the trust's term, the remaining asset is available for unrestricted use by the Foundation. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recorded in the statements of activities as a temporarily restricted contribution in the year the trust was established. The present value of the remainder interest is calculated using an interest rate of 6 percent and applicable mortality tables.

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

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 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.

New Accounting Pronouncement: In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which establishes a market-based framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact SFAS 157 may have on the statements of financial position, activities, and cash flows.

Note 2 – Concentrations

Cash and Cash Equivalents: The Foundation maintains cash and cash equivalents in bank deposit accounts which at times exceed federally insured deposit limits. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash and cash equivalents.

Charitable Remainder Trust: The charitable remainder trust is an unconditional promise to give which is exposed to various risks, such as interest rates and donor life expectancies. Changes in the near-term are not expected to materially affect the amount reported in the financial statements.

Investments: Investments are exposed to various risks, such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near-term could materially affect the amounts reported in the financial statements. Investments are managed by third-party money managers and mutual fund managers to diversify risk and manage liquidity.

ALLIANCE HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments

At June 30, investments consist of:

	2008	2007
Fixed income	\$ 17,189,324	\$ 12,941,154
International equities	16,183,434	6,828,175
Private equity partnerships	14,022,658	13,772,716
Large cap equities	12,158,577	24,371,951
Hedge funds	10,656,587	10,369,057
Small and mid cap equities	8,329,058	15,090,912
Commodities	4,638,309	4,293,409
	<u>\$ 83,177,947</u>	<u>\$ 87,667,374</u>

The Foundation has entered into agreements with various private equity partnerships to make future investments in such funds. These agreements expire at various dates through September 2019. As of June 30, 2008, future commitments related to these agreements totaled approximately \$12,400,000.

Note 4 – Property, Equipment, and Improvements

At June 30, property, equipment, and improvements consist of:

Leasehold improvements	\$ 185,050	\$ 185,049
Office furniture and fixtures	121,942	121,942
Office equipment	63,679	56,380
Computer software	47,232	47,232
	<u>417,903</u>	<u>410,603</u>
Less accumulated depreciation and amortization	<u>(391,567)</u>	<u>(385,403)</u>
	<u>\$ 26,336</u>	<u>\$ 25,200</u>

Note 5 – SDHFC

SDHFC is a project of the Foundation. This collaborative is not a separate legal entity. The SDHFC consists of representatives of non-profit organizations and private donors from the community who donate funds and advise the Foundation on the allocation of these funds as grant awards for HIV/AIDS programs. These funds are donated to the Foundation and are categorized as restricted donations for SDHFC program grant awards based on donor intent. Unrestricted funds recorded as sponsorship income partially support the direct expenses incurred by the Foundation to manage SDHFC and monitor the grant awards for HIV/AIDS programs.

For the years ended June 30, SDHFC transactions are summarized as follows:

Program funds received (included in contributions)	\$ 643,500	\$ 500,000
SDHFC sponsorship	15,000	11,250
Program funds distributed (included in program grants)	(504,174)	(500,272)

ALLIANCE HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 6 – Grants

Grants are made by the Foundation to qualifying 501(c)(3) organizations in accordance with the Foundation's objectives. Grants which are conditioned on future uncertain events are expensed when those conditions are substantially met. Conditional grants outstanding at June 30, 2008 and 2007 totaled approximately \$2,423,000 and \$2,194,000, respectively.

During the year ended June 30, 2008, the Foundation approved 31 grants of new awards aggregating approximately \$2,999,000. During the year ended June 30, 2007, the Foundation approved 26 grants of new awards aggregating approximately \$2,395,000. Grants are usually funded in quarterly installments.

In addition, SDHFC approved 29 new grant awards for \$515,000 and 44 new grant awards for \$504,000 during the years ended June 30, 2008 and 2007, respectively.

Note 7 – Federal Excise Taxes

The Foundation is subject to an excise tax on its net investment income. The Foundation has recorded federal excise tax provisions of \$188,000 and \$272,000 for the years ended June 30, 2008 and 2007, respectively.

Note 8 – Commitments

Leases: The Foundation leases office space and other equipment under non-cancelable operating lease agreements with terms expiring through April 2013.

Future minimum lease payments as of June 30, 2008 under non-cancelable operating lease agreements are as follows:

Years ending June 30,		
2009	\$	65,452
2010		6,442
2011		5,133
2012		3,824
2013		3,186
	\$	<u>84,037</u>

Total rental expense for operating leases was approximately \$120,000 and \$121,000 for the years ended June 30, 2008 and 2007, respectively.

Note 9 – Temporarily Restricted Net Assets

At June 30, temporarily restricted net assets consist of:

	2008	2007
Remainder interest in annuities	\$ 431,507	\$ 477,346
HIV and AIDS related services - SDHFC	413,156	277,285
Other	-	7,343
	<u>\$ 844,663</u>	<u>\$ 761,974</u>

ALLIANCE HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 9 – Temporarily Restricted Net Assets (Continued)

Net assets were released from restrictions for the years ended June 30 for:

	2008	2007
HIV and AIDS related services - SDHFC	\$ 511,518	\$ 500,272
Other	<u>3,454</u>	<u>3,553</u>
	<u>\$ 514,972</u>	<u>\$ 503,825</u>

Note 10 – Retirement Plans

The Foundation maintains a defined contribution pension plan (the “Plan”), qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Annual employer contributions to the Plan for each of the years ended June 30, 2008 and 2007 were 12 percent of employee compensation. Contributions to the Plan for the years ended June 30, 2008 and 2007 were approximately \$74,000 and \$71,000, respectively.

The Foundation maintained a supplemental retirement plan for a key executive, which was terminated, and all amounts due were paid to the executive during the year ended June 30, 2008. Contributions to the supplemental retirement plan had been deposited into a separate trust account which was reported as supplemental retirement plan investments in the accompanying statement of financial position as of June 30, 2007.