



MISSION HEALTHCARE FOUNDATION, INC.

Financial Statements and Supplementary Information

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308

Independent Auditors' Report

The Board of Trustees
Mission Healthcare Foundation, Inc.:

We have audited the accompanying statements of financial position of Mission Healthcare Foundation, Inc. (the Foundation) as of September 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Healthcare Foundation, Inc. as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U. S. generally accepted accounting principles.

As discussed in note 1(j), the Foundation adopted, effective September 30, 2009, the provisions of Financial Accounting Standards Board Accounting Standards Codification 958-205 for Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures For All Endowment Funds.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 16, 2010

MISSION HEALTHCARE FOUNDATION, INC.

Statements of Financial Position

September 30, 2009 and 2008

Assets	2009	2008
Cash and cash equivalents	\$ 410,344	911,547
Pledges receivable, net	963,385	1,581,885
Other receivables	769,858	879,658
Investments	13,158,031	12,439,119
Assets held under split-interest agreements	944,545	1,028,984
Other assets	376,477	380,663
	<u>\$ 16,622,640</u>	<u>17,221,856</u>
Liabilities and Net Assets		
Accounts payable	\$ 165,295	163,573
Accrued expenses	137,116	278,147
Due to affiliates, net	653,497	789,944
Liability under split-interest agreements	614,615	541,438
Total liabilities	<u>1,570,523</u>	<u>1,773,102</u>
Net assets:		
Unrestricted	4,689,002	5,524,269
Temporarily restricted	7,123,713	7,162,746
Permanently restricted	3,239,402	2,761,739
Total net assets	<u>15,052,117</u>	<u>15,448,754</u>
	<u>\$ 16,622,640</u>	<u>17,221,856</u>

See accompanying notes to financial statements.

MISSION HEALTHCARE FOUNDATION, INC.

Statements of Activities

Years ended September 30, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:								
Contributions and grants	\$ 3,684,483	1,848,006	477,663	6,010,152	4,156,411	4,154,854	465,959	8,777,224
Contribution from Mission Health System, Inc.	1,575,000	—	—	1,575,000	1,600,000	—	—	1,600,000
Net change in fair value of split-interest agreements	—	(176,608)	—	(176,608)	—	28,784	—	28,784
Net investment income (loss)	252,849	222,216	—	475,065	(2,250,856)	95,968	—	(2,154,888)
Net assets released from restrictions – satisfaction of donor-imposed restrictions	2,434,898	(2,434,898)	—	—	3,539,201	(3,539,201)	—	—
Total revenues, gains, and other support	7,947,230	(541,284)	477,663	7,883,609	7,044,756	740,405	465,959	8,251,120
Expenses and losses:								
Program	6,458,536	—	—	6,458,536	7,898,977	—	—	7,898,977
General and administrative expenses	818,590	—	—	818,590	840,504	—	—	840,504
Fund raising	1,003,120	—	—	1,003,120	996,643	—	—	996,643
Total expenses and losses	8,280,246	—	—	8,280,246	9,736,124	—	—	9,736,124
Change in net assets before effect of law change	(333,016)	(541,284)	477,663	(396,637)	(2,691,368)	740,405	465,959	(1,485,004)
Net asset reclassification based on law change	(502,251)	502,251	—	—	—	—	—	—
Change in net assets after effect of law change	(835,267)	(39,033)	477,663	(396,637)	(2,691,368)	740,405	465,959	(1,485,004)
Net assets, beginning of year	5,524,269	7,162,746	2,761,739	15,448,754	8,215,637	6,422,341	2,295,780	16,933,758
Net assets, end of year	\$ 4,689,002	7,123,713	3,239,402	15,052,117	5,524,269	7,162,746	2,761,739	15,448,754

See accompanying notes to financial statements.

MISSION HEALTHCARE FOUNDATION, INC.

Statements of Cash Flows

Years ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (396,637)	(1,485,004)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in net present value discount	(5,154)	(7,292)
Depreciation and amortization	54,103	48,358
Net unrealized losses (gains) on investments	(327,580)	2,460,942
Permanently restricted and capital contributions received	(1,047,639)	(2,276,907)
Decrease in pledges and other receivables	733,454	515,682
Decrease in accounts payable and accrued expenses	(139,309)	(21,263)
Increase in due to affiliates, net	(136,447)	(215,732)
Change in other assets and liabilities, net	113,432	(180,738)
Net cash used in operating activities	(1,151,777)	(1,161,954)
Cash flows from investing activities:		
Purchases of investments	(4,222,316)	(5,827,511)
Sales of investments	3,830,984	4,784,536
Capital expenditures	(5,733)	(30,417)
Net cash used in investing activities	(397,065)	(1,073,392)
Cash flows from financing activities:		
Permanently restricted and capital contributions received	1,047,639	2,276,907
Net change in cash and cash equivalents	(501,203)	41,561
Cash and cash equivalents, beginning of year	911,547	869,986
Cash and cash equivalents, end of year	\$ 410,344	911,547

See accompanying notes to financial statements.

MISSION HEALTHCARE FOUNDATION, INC.

Notes to Financial Statements

September 30, 2009 and 2008

(1) Organization and Summary of Significant Accounting Policies

Mission Healthcare Foundation, Inc. (the Foundation) is a North Carolina, not-for-profit corporation whose sole member is Mission Health System, Inc. (the Parent), also a North Carolina not-for-profit corporation. The Foundation exists for charitable and educational purposes, primarily for the benefit of Western North Carolina and surrounding areas. To fulfill this purpose, the Foundation supports various area healthcare-related projects and programs, primarily at Mission Hospital, Inc. (the Hospital).

The Foundation is a Combined Group member of the Parent as defined by the Master Trust Indenture associated with the Parent's issuance of certain Revenue Bonds through the North Carolina Medical Care Commission. The amount of related Revenue Bonds outstanding at September 30, 2009 and 2008 was \$321,844,000 and \$327,845,000, respectively.

The significant accounting policies used by the Foundation in preparing and presenting its financial statements follow:

(a) *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, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents include certain investments in highly liquid debt instruments 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 measured at fair value. Investment income items (including realized and unrealized gains and losses on investments, interest, and dividends) are reflected in the statement of activities as changes in unrestricted net assets, unless restricted by the donor or law.

The Foundation also has investments in certain marketable and nonmarketable alternatives (most often referred to as hedge funds or private equity funds and generally organized as limited partnerships, limited liability companies or corporations) and commingled funds (generally organized as collective trust funds). The Foundation accounts for marketable and nonmarketable alternatives organized as limited partnerships or limited liability companies with specific ownership accounts using the equity method, which generally approximates net asset value. The Foundation accounts for commingled funds using the fair value method or the equity method, dependent on its percentage ownership in a specific fund. The Foundation accounts for marketable and nonmarketable alternatives organized as corporations at net asset value as a practical expedient to fair value, when the investment has a readily determinable value and transacts frequently (at least quarterly).

The underlying holdings of marketable alternatives and commingled funds are typically valued by the general partner and trustee, respectively, using quoted market prices for publicly traded securities

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and valuation estimates for derivative instruments. The underlying holdings of nonmarketable alternatives are typically valued by general partners at cost or adjusted value based on recent arms-length transactions, appraisals by third parties of properties held, or other methodologies. The valuations provided by the general partners and trustees are routinely evaluated by management, and management believes such values are reasonable.

Management is required to make certain estimates in preparation of the financial statements. Among those potentially significant estimates are valuation of certain marketable and nonmarketable alternatives and collective trust funds. These estimates may be subjective and can require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. The Foundation believes that the carrying amounts of these investments are a reasonable estimate of fair value. Changes in assumptions could have a material impact on the financial statements.

(d) *Property and Equipment*

Property and equipment acquisitions are stated at cost. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets, which range from five to seven years.

(e) *Contributions Received*

Unconditional promises to give cash and other assets are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met, and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(f) *Program Expenses*

The Foundation records a liability for programs it supports at the Hospital at the time such expenditures are incurred by the Hospital. No such accruals were required at either September 30, 2009 or 2008.

(g) *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are assets which use by the Foundation is restricted by donors for a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

(h) *Income Taxes*

The Foundation has been recognized as a public charity, not a supporting organization, exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3) and, therefore, related income is generally not subject to federal or state income taxes.

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Notes to Financial Statements

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The Foundation applies the provisions of FASB ASC Topic 740 for Income Taxes in accounting for uncertainty in income taxes. ASC 740 provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There is currently no impact on the Foundation's financial statements as a result of the application of ASC 740.

(i) *New Fair Value Accounting Standard*

Effective October 1, 2008, the Foundation adopted FASB ASC Topic 820 for Fair Value Measurements and Disclosures, which defines fair value, establishes an enhanced framework for measuring fair value and expands disclosures about fair value measurements. The Foundation's adoption of ASC 820 did not have a significant impact on the Foundation's determination of fair value in the financial statements. However, adoption of ASC 820 did result in expanded footnote disclosures in note 9 to the financial statements.

In conjunction with the adoption of ASC 820, the Foundation elected to early adopt the measurement provisions of FASB Accounting Standards Update (ASU) No. 2009-12, Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), to certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds. This guidance amends ASC 820 and permits, as a practical expedient, the use of net asset value or its equivalent for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to ASC 820.

(j) *New Endowment Accounting Standard*

Effective October 1, 2008, the Foundation adopted FASB ASC Sub Topic 958-205 for Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures For All Endowment Funds. ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and serves to improve disclosures about an organization's endowment funds (both donor-restricted and board-designated). The Foundation's adoption of ASC 958-205 resulted in the reclassification of certain accumulated appreciation on its donor-restricted endowment funds, previously classified as unrestricted net assets, as such amounts have not yet been appropriated for expenditure. Adoption of ASC 958-205 also resulted in expanded footnote disclosure in note 8 to the financial statements.

(k) *New Subsequent Event Accounting Standard*

FASB ASC Topic 855 for Subsequent Events introduces the concept of financial statements being "available to be issued," and requires disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. ASC 855 does not result in significant changes to subsequent events that are reported either through recognition or disclosure in the financial statements. ASC 855 is effective for the Foundation's September 30, 2009 financial statements, and the Foundation has evaluated subsequent events through February 16, 2010, the date the financial statements were issued.

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Notes to Financial Statements

September 30, 2009 and 2008

(2) Pledges Receivable

Pledges receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Due in:		
Less than one year	\$ 942,762	1,408,797
One year to five years	104,134	261,753
	<u>1,046,896</u>	<u>1,670,550</u>
Less:		
Allowance for doubtful pledges	(75,000)	(75,000)
Unamortized discounts at 3.7% to 3.4%	(8,511)	(13,665)
Pledges receivable, net	<u>\$ 963,385</u>	<u>1,581,885</u>

(3) Investments

The composition of the Foundation's investments follows:

	<u>2009</u>	<u>2008</u>
Fixed income securities	\$ 2,975,457	2,425,726
Common stocks	4,956,153	4,360,748
Collective trust funds	3,609,152	3,990,998
Alternative investment vehicles	1,617,269	1,661,647
	<u>\$ 13,158,031</u>	<u>12,439,119</u>

Net investment income (loss) is comprised of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 289,890	242,967
Net realized (losses) gains on sales of investments	(142,405)	63,087
Net unrealized gains (losses) on investments	327,580	(2,460,942)
Total	<u>\$ 475,065</u>	<u>(2,154,888)</u>

The Foundation's investments are commingled in an investment portfolio with certain of the investments of the Parent and its affiliates, consistent with Parent's centralized treasury management policies and processes. Each entity has a pro rata share based on the percentage share of its investments to the total. Portfolio investment income (including realized and unrealized gains and losses) is apportioned monthly based on share percentages.

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Notes to Financial Statements

September 30, 2009 and 2008

(4) Other Assets

Other assets at September 30, 2009 and 2008 include furniture and fixtures, software costs, and projects in progress totaling \$390,738 and \$385,005, less accumulated depreciation and amortization of \$198,383 and \$144,280, respectively. Depreciation and amortization expense for the years ended September 30, 2009 and 2008 was \$54,103 and \$48,358, respectively.

(5) Related Party Transactions

Net amounts due to affiliates represent amounts due for the reimbursement of expenses largely made by the Parent on behalf of the Foundation and amounts due to the Parent under an affiliation agreement.

(6) Split-Interest Agreements

The Foundation is trustee and remainder beneficiary of several charitable remainder trusts and gift annuities. These arrangements generally require the Foundation to make specified distributions to the designated beneficiaries over their remaining lives. Upon termination of the trusts, the Foundation will receive any remaining assets. Present value of liabilities under the trust agreements are calculated using discount rates between 6.0% and 9.5%. Assets are invested separately from other Foundation assets and are reported at fair value. The financial statements include the following trust-related items:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ —	17,578
Assets held in charitable remainder trusts	354,265	452,878
Gift annuities	590,280	576,106
Liability under split-interest agreements	614,615	541,438
Temporarily restricted – change in value of split-interest agreements, net	(176,608)	28,784

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Notes to Financial Statements

September 30, 2009 and 2008

(7) Program Expenses

Program expenses consist of expenditures for Hospital programs as follows:

	<u>2009</u>	<u>2008</u>
Heart services	\$ 8,899	42,914
Women's services	905,527	960,808
Cancer services	269,880	199,458
Children's services	791,596	1,032,830
Capital projects	1,048,716	2,216,770
Education programs	578,377	349,154
Senior services	87,582	42,587
Trauma services	1,357,594	1,077,852
Information technology programs	171,780	1,273,103
Employee assistance programs	101,635	99,549
Community impact programs	161,441	145,892
Diabetes services	206,447	—
Other services	769,062	458,060
	<u>\$ 6,458,536</u>	<u>7,898,977</u>

(8) Net Assets

Temporarily restricted net assets as of September 30, 2009 and 2008 are available for various children's, women's, cancer, heart, and other Hospital programs, as well as Hospital capital projects, as follows:

	<u>2009</u>	<u>2008</u>
Heart services	\$ 248,086	219,600
Women's services	69,750	265,956
Cancer services	918,661	721,059
Children's services	2,993,930	2,071,841
Capital projects	1,251,328	1,730,068
Education programs	252,874	303,332
Diabetes services	143,137	342,346
Vision services	206,680	206,502
Medication services	195,794	204,115
Senior services	116,844	125,139
Trauma services	106,459	98,082
Other services	620,170	874,706
	<u>\$ 7,123,713</u>	<u>7,162,746</u>

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Permanently restricted net assets consist of the following endowment funds for which income can only be used for specified purposes:

	<u>2009</u>	<u>2008</u>
Andie's Camp for Kids Endowment	\$ 183,911	183,911
Gold Medal Endowment for Children's Health Programs	1,486,871	1,377,919
Kay Finger Endowment	406,556	406,506
Neurosciences Endowment	161,431	161,431
Huff Endowment	228,050	228,050
Hearst Endowment	100,000	100,000
Pathways-Life after Cancer Endowment	368,661	—
Other	303,922	303,922
	<u>\$ 3,239,402</u>	<u>2,761,739</u>

The Foundation's endowment consists of 32 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2007 (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Board-designated and donor-restricted endowment funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments

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- 6. Other resources of the Foundation
- 7. The investment policies of the Foundation

Endowment net assets and classification of related unappropriated income at September 30, 2009 and 2008 follow:

		2009			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowments	\$	—	597,315	3,239,402	3,836,717
Board-designated endowments		710,612	—	—	710,612
	\$	<u>710,612</u>	<u>597,315</u>	<u>3,239,402</u>	<u>4,547,329</u>
		2008			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowments	\$	—	—	2,761,739	2,761,739
Board-designated endowments		1,078,094	—	—	1,078,094
	\$	<u>1,078,094</u>	<u>—</u>	<u>2,761,739</u>	<u>3,839,833</u>

The change in endowment net assets and related income classifications for the year ended September 30, 2009 follow:

		2009			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning of year	\$	1,078,094	—	2,761,739	3,839,833
Net asset reclassification based on adoption of the Act		(502,251)	502,251	—	—
		<u>575,843</u>	<u>502,251</u>	<u>2,761,739</u>	<u>3,839,833</u>
Contributions		—	—	477,663	477,663
Transfers to create Board designated endowments		75,000	—	—	75,000
Investment return:					
Interest and dividend income		116,187	135,849	—	252,036
Realized gains		—	155,312	—	155,312
Net depreciation		(31,054)	(68,945)	—	(99,999)
		<u>85,133</u>	<u>222,216</u>	<u>—</u>	<u>307,349</u>
Appropriation of endowment assets for expenditure		(25,364)	(127,152)	—	(152,516)
End of year	\$	<u>710,612</u>	<u>597,315</u>	<u>3,239,402</u>	<u>4,547,329</u>

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Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2009.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 0-10% Cash Equivalents, 30-60% of the Barclays Capital Aggregate Bond Index and 40-70% of the S&P 500 index, while assuming a moderate level of investment risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4% of its endowment funds' trailing three year average total asset value preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth is anticipated through new gifts and any excess investment return.

(9) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the balance sheets approximate their fair values at September 30, 2009 and 2008. Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

(b) Fair Value Hierarchy

In accordance with ASC 820, the Foundation has categorized its financial instruments, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;

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- Level 2 inputs are inputs other than quoted prices included within Level 1 (including net asset value) that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy of investments at September 30, 2009 follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income securities	\$ 2,975,457	—	—	2,975,457
Common stocks	4,956,153	—	—	4,956,153
Alternative investment vehicles	—	811,139	806,130	1,617,269
Collective trust funds	—	3,609,152	—	3,609,152
Total	\$ <u>7,931,610</u>	<u>4,420,291</u>	<u>806,130</u>	<u>13,158,031</u>

The rollforward of Level 3 assets limited as to use for the year ended September 30, 2009 follows:

Beginning of year	\$ 694,872
Unrealized losses, net	(13,806)
Realized losses, net	(49,590)
Sales, net	(20,538)
Purchases	<u>195,192</u>
End of year	\$ <u>806,130</u>

Investments classified as Level 2 are generally categorized based on the following principles:

- Shares or units in collective trust funds (as opposed to direct interests in the funds' underlying holdings) and hedge funds, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, classification as Level 2 is based on the Foundation's ability to redeem its interest at or near the date of the balance sheet. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Investments classified as Level 3 are generally categorized based on the following principles:

- Ownership interests in hedge funds and private equity are valued by and obtained from the fund manager. Account statements are received directly from independent administrators or the underlying hedge funds managers, who are responsible for the pricing of these funds. Before reliance on these valuations, the Foundation evaluates the fair value estimation processes and control environment, the investee fund's policies and procedures for estimating fair value of underlying investments, the investee fund's use of independent third party valuation experts, and the professional reputation and standing of the investee fund's auditor.

MISSION HEALTHCARE FOUNDATION, INC.
Supplemental Information – Schedule of Functional Expenses
Year ended September 30, 2009

	Program services						Program services		
	Heart services	Women's services	Cancer services	Children's services	Capital projects	Education programs	Senior services	Trauma services	Info tech services
Salaries, taxes, and benefits	\$ 1,921	738,911	7,569	254,837	29,412	351,759	45,737	232,811	61,053
Contract labor	—	30,934	100	235,930	—	—	—	235,322	—
Rent and utilities	—	94	—	900	—	1,014	6,320	281,299	—
Travel	2,802	13,064	47,075	64,922	—	180,650	3,835	58,696	—
Office supplies	62	11,021	2,087	12,263	7,353	16,186	614	11,045	20,708
Public relations	—	525	—	917	—	—	—	712	—
Repairs and maintenance	—	—	—	—	—	—	—	616	—
Purchased services	1,064	53,768	14,498	72,295	—	13,923	27,181	45,062	—
Special departmental supplies	3,050	56,148	—	129,658	—	14,845	—	492,031	—
Research	—	1,062	198,476	19,714	—	—	—	—	90,019
Capital	—	—	—	—	1,011,951	—	—	—	—
Other	—	—	75	160	—	—	3,895	—	—
Depreciation and amortization	—	—	—	—	—	—	—	—	—
	<u>\$ 8,899</u>	<u>905,527</u>	<u>269,880</u>	<u>791,596</u>	<u>1,048,716</u>	<u>578,377</u>	<u>87,582</u>	<u>1,357,594</u>	<u>171,780</u>

See accompanying independent auditors' report.

(Continued)

MISSION HEALTHCARE FOUNDATION, INC.
Supplemental Information – Schedule of Functional Expenses
Year ended September 30, 2009

	Program services				Support services			
	Employee assistance services	Community impact programs	Diabetes services	Other services	Total program expenses	Management and general	Fund raising	Total
Salaries, taxes, and benefits	\$ 2,850	4,528	205,000	170,425	2,106,813	543,567	666,100	3,316,480
Contract labor	—	—	—	848	503,134	5,872	7,196	516,202
Rent and utilities	—	—	—	—	289,627	28,980	35,512	354,119
Travel	—	—	—	43,539	414,583	11,159	13,675	439,417
Office supplies	713	1,132	1,447	5,392	90,023	29,395	36,021	155,439
Public relations	—	—	—	2,647	4,801	40,885	50,101	95,787
Repairs and maintenance	—	—	—	—	616	1,656	2,029	4,301
Purchased services	98,072	155,781	—	159,556	641,200	96,220	117,911	855,331
Special departmental supplies	—	—	—	377,012	1,072,744	24,874	30,481	1,128,099
Research	—	—	—	4,306	313,577	—	—	313,577
Capital	—	—	—	—	1,011,951	—	—	1,011,951
Other	—	—	—	5,337	9,467	12,229	13,744	35,440
Depreciation and amortization	—	—	—	—	—	23,753	30,350	54,103
	<u>\$ 101,635</u>	<u>161,441</u>	<u>206,447</u>	<u>769,062</u>	<u>6,458,536</u>	<u>818,590</u>	<u>1,003,120</u>	<u>8,280,246</u>

See accompanying independent auditors' report.