

FISA FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

WITH

INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

FISA FOUNDATION

YEARS ENDED JUNE 30, 2007 AND 2006

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Independent Auditor's Report

Board of Directors
FISA Foundation

We have audited the accompanying statements of financial position of the FISA Foundation (FISA) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of FISA'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 audits 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 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 FISA as of June 30, 2007 and 2006, 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.

Maher Duessel

Pittsburgh, Pennsylvania
October 15, 2007

FISA FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash	\$ 166,873	\$ 162,206
Investments:		
FISA - controlled investments	46,933,152	42,708,265
Prepaid taxes	30,053	18,644
Other assets	3,590	2,612
Furniture, fixtures, and equipment - less allowance for depreciation of \$63,296 and \$68,097	<u>1,913</u>	<u>6,288</u>
Total Assets	<u>\$ 47,135,581</u>	<u>\$ 42,898,015</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ -	\$ 3,680
Grants payable	364,314	368,204
Accrued compensation and amounts withheld from compensation	10,894	4,201
Liabilities accrued and assumed on sale of Harmarville Rehabilitation Center	<u>71,557</u>	<u>83,111</u>
Total Liabilities	<u>446,765</u>	<u>459,196</u>
Net Assets:		
Unrestricted:		
Undesignated	46,633,360	42,120,352
Temporarily restricted	55,456	118,467
Permanently restricted	<u>-</u>	<u>200,000</u>
Total Net Assets	<u>46,688,816</u>	<u>42,438,819</u>
Total Liabilities and Net Assets	<u>\$ 47,135,581</u>	<u>\$ 42,898,015</u>

See accompanying notes to financial statements.

FISA FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Unrestricted Net Assets:		
Revenues, gains, and other support:		
Contributions and other	\$ 5,104	\$ 5,771
Investment income - net of expenses of \$193,491 and \$184,550	6,374,571	4,346,854
Net assets released from restrictions	270,591	236,349
Total revenues, gains, and other support	6,650,266	4,588,974
Expenses:		
Program grants	1,741,492	1,880,116
Management and general expenses:		
Salaries, wages, and benefits	229,179	207,091
Office operations	79,110	65,149
Insurance	7,575	7,444
Legal and professional	20,384	19,885
Depreciation	5,462	3,350
Excise tax	29,049	24,739
Other expenses	18,006	19,061
Total management and general expenses	388,765	346,719
Total expenses	2,130,257	2,226,835
Excess (Deficiency) of Revenues, Gains, and Other Support Over Expenses	4,520,009	2,362,139
Discontinued operations revenues (expenses):		
Other	(7,001)	(7,753)
Change in Unrestricted Net Assets	4,513,008	2,354,386
Temporarily Restricted Net Assets:		
Investment income	7,580	32,680
Net assets released from restriction	(70,591)	(36,349)
Change in Temporarily Restricted Net Assets	(63,011)	(3,669)
Permanently Restricted Net Assets:		
Net assets released from restriction	(200,000)	(200,000)
Change in Net Assets	4,249,997	2,150,717
Net Assets:		
Beginning of year	42,438,819	40,288,102
End of year	\$ 46,688,816	\$ 42,438,819

See accompanying notes to financial statements.

FISA FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 4,249,997	\$ 2,150,717
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,462	3,350
Net (appreciation) depreciation of investments	(5,362,460)	(3,302,806)
Change in:		
Prepaid taxes	(11,409)	(7,301)
Other assets	(978)	-
Accounts payable and accrued liabilities	3,013	4,360
Grants payable	(3,890)	55,735
Liabilities accrued and assumed on sale	(11,554)	(10,866)
Total adjustments	<u>(5,381,816)</u>	<u>(3,257,528)</u>
Net cash provided by (used in) operating activities	<u>(1,131,819)</u>	<u>(1,106,811)</u>
Cash Flows From Investing Activities:		
Purchase of fixed assets	(1,087)	(6,579)
Purchase of investments	(5,950,111)	(5,303,919)
Proceeds from sale of investments	7,087,684	6,566,259
Net cash provided by (used in) investing activities	<u>1,136,486</u>	<u>1,255,761</u>
Net Increase (Decrease) in Cash	4,667	148,950
Cash:		
Beginning of year	<u>162,206</u>	<u>13,256</u>
End of year	<u>\$ 166,873</u>	<u>\$ 162,206</u>
Supplemental Information:		
Excise tax paid	<u>\$ 40,458</u>	<u>\$ 24,739</u>

See accompanying notes to financial statements.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization

FISA Foundation (FISA) is a private foundation whose principal activity is making charitable grants to nonprofit organizations in southwestern Pennsylvania. Its mission is to build a culture of respect and improve the quality of life for three populations: women, girls, and people with disabilities. FISA envisions a community where these three populations reach their full potential, are safe and healthy, and participate fully in community life, thus enriching their own lives and those of others. During its 95-year existence, FISA's mission has remained consistent, but the focus of its activities has continually evolved to meet changing needs.

The organization began in 1911 when alumnae of six girls' schools formed a membership organization that eventually became known as The Federation of Independent School Alumnae (Federation). Their first project was to establish Harmarville Convalescent Home for Women (Home), serving at-risk women and their babies. Forty years later, they re-engineered the Home's focus to become Harmarville Rehabilitation Center (Center), which subsequently became internationally known for its innovative therapies for people with physical disabilities. In 1996, to meet the financial challenges of a changing healthcare market, the Federation and Center boards decided to sell the not-for-profit Center to a for-profit corporation. The proceeds of this sale created the endowment of the current foundation. In 2000, the name of the organization was legally changed to *FISA Foundation*. Because FISA's assets came from the sale of a healthcare institution, in keeping with the legal doctrine of *cy prés*, all of FISA's work is focused in areas related to health and human services.

Besides grantmaking, FISA furthers its mission through a variety of other activities. FISA strives to raise awareness and promote positive systemic change for women, girls, and people with disabilities. The most significant of these activities include:

- Commissioning white papers and reports
- Connecting nonprofit organizations with information and resources
- Providing capacity-building and technical support to grantees
- Convening workgroups to address strategic issues and gaps in service
- Serving on community advisory boards

With its exclusive focus on three underserved and under-funded populations, FISA provides effective community leadership on issues related to women, girls, and people with disabilities.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. FISA has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "*Financial Statements of Not-for-Profit Organizations.*" Under the provisions of SFAS No. 117, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of FISA and changes therein are reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of FISA pursuant to those stipulations.

Permanently Restricted Net Assets

Net assets whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of FISA. At June 30, 2007, FISA had no permanently restricted net assets as discussed in Note 4.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Income, including realized and unrealized gains and losses on permanently restricted net assets, is included in temporarily restricted net assets until the donor-imposed restrictions on income are recognized.

Realized and unrealized gains and losses are allocated between temporarily restricted and unrestricted net assets. The allocation to temporarily restricted net assets is based on the sum of the permanently and temporarily restricted net assets as compared to the total net assets at the beginning of the year.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

Cash

Cash consists of demand deposits held in financial institutions.

Investments

Investments in equity securities with readily determinable fair values and investments in debt securities are stated at fair value. The cost assigned to investments received by gift is the market value at the date the gift is received. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenues, gains, and other support.

Furniture, Fixtures, and Equipment

Office furniture, fixtures, and equipment are recorded at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets.

Use of Estimates in the Preparation of Financial Statements

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes

FISA was incorporated in 1913 as a nonprofit corporation. FISA became subject to tax treatment as a private foundation beginning July 1, 2001 as it no longer qualified as a publicly supported organization. As a private foundation, among other requirements, FISA is subject to excise tax on net investment income and must distribute, at a minimum, an amount equal to five percent of the combined fair market value of its investment assets not used in carrying out the charitable purpose of FISA reduced by the excise tax.

Risks and Uncertainties

Financial instruments, which potentially expose the Foundation to concentrations of credit risk, include cash and investments in marketable securities. As a matter of policy, the Foundation maintains cash balances only with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Investment securities are also

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

exposed to various other risks such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amount reported on the statements of financial position.

2. INVESTMENTS

Investments consisted of the following at June 30, 2007 and 2006:

	2007 Fair Value <u>(Carrying Value)</u>	2006 Fair Value <u>(Carrying Value)</u>
Money market accounts	\$ 4,454,062	\$ 4,634,523
Private equity funds	978,844	776,142
Mutual funds	37,048,966	37,297,600
Offshore hedge funds	4,451,280	-
	<u>\$ 46,933,152</u>	<u>\$ 42,708,265</u>

It is management's philosophy to invest these assets to obtain long-term growth.

Investment income consisted of the following for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Dividend and interest income	\$ 1,213,182	\$ 1,261,278
Net appreciation/(depreciation)	5,354,880	3,270,126
	6,568,062	4,531,404
Less: investment expenses	(193,491)	(184,550)
Investment income	6,374,571	4,346,854
Temporarily restricted net assets:		
Net appreciation/(depreciation)	7,580	32,680
Investment income, net	<u>\$ 6,382,151</u>	<u>\$ 4,379,534</u>

Net realized gains/losses were determined using the specific identification method.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

FISA invests in hedge funds to further diversify its investment portfolio through the following funds operated by Hirtle Callaghan: the Total Return Offshore Fund II Limited Fund and the Absolute Return Offshore Fund II Limited Fund. Investments in the hedge funds are speculative and involve risk. Risks arise from changes in the value of these funds and the potential inability to liquidate all or a portion of them in a timely manner. There are numerous factors that may significantly influence the market value of these funds, including interest rate volatility. These factors were considered by FISA prior to making this investment and it was determined the investment would be beneficial to leverage risk in other areas of the investment portfolio.

The hedge funds are reported at market value at June 30, 2007. Market value is calculated as the net asset value of the funds less the fund's liabilities, including accrued fees and expenses. The share reported by FISA is proportionate to the Foundation's relative capital contribution.

In addition, FISA invests in private equity funds that are also speculative and involve risks that would arise from changes in the value of these funds and the potential inability to liquidate all or a portion of them in a timely manner.

3. ACCRUED AND ASSUMED LIABILITIES ON THE SALE OF HARMARVILLE REHABILITATION CENTER

At June 30, 2007 and 2006, liabilities accrued and assumed by FISA from the sale of the Center consisting of supplemental pension agreements amounted to \$71,557 and \$83,111, respectively. The Center entered into supplemental pension agreements for certain of its previously retired executives that require monthly payments of approximately \$1,515 for the life of the individuals. FISA assumed the obligation to pay these supplemental pensions pursuant to the agreement and has recorded as a liability, the present value of the estimated payments to the individuals using a discount rate of 8.5%.

Under the terms of the agreement of sale, the Center's debt obligations were assumed by FISA. FISA redeemed all of the Center's outstanding debt subsequent to the sale of the Center's assets. However, the Center had previously deposited in an irrevocable escrow account with a bank trustee, U.S. Government obligations in an amount sufficient to pay principal and interest on its 1973 Bonds when due. The 1973 Bonds outstanding amounted to \$1,524,920 and \$1,590,000 at June 30, 2007 and 2006, respectively. Neither the irrevocable escrow account nor the related debt is reflected in these financial statements.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

4. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by FISA is limited by donors. Net assets released from restrictions were released for the cited purposes. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity for brain injury and other community needs. Income, including realized gains on the sale of investments, earned on the permanently restricted funds is included as income of temporarily restricted funds. During 2007 and 2006, donors released restrictions totaling \$200,000 and \$200,000, respectively, on FISA's permanently restricted net assets. At June 30, 2007, FISA had no permanently restricted net assets.

5. GRANTS PAYABLE

FISA has made unconditional promises to give to other organizations the amounts of \$364,314 and \$368,204 for fiscal years 2007 and 2006, respectively. These amounts are reflected on the statements of financial position as grants payable. Of the fiscal year 2007 amount, \$324,314 will be paid in fiscal year 2008 and \$40,000 will be paid in fiscal year 2009.