

FISA Foundation

Financial Statements

Years Ended June 30, 2011 and 2010
with Independent Auditor's Report

MaherDuessel
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Pittsburgh | Harrisburg | Butler

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FISA FOUNDATION

YEARS ENDED JUNE 30, 2011 AND 2010

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Independent Auditor's Report

Board of Directors
FISA Foundation

We have audited the accompanying statements of financial position of FISA Foundation (FISA) as of June 30, 2011 and 2010, 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, 2011 and 2010, 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
November 18, 2011

FISA FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash	\$ 93,770	\$ 176,205
Investments:		
FISA - controlled investments	40,147,075	35,452,110
Prepaid taxes	4,265	11,315
Other assets	2,664	4,543
Furniture, fixtures, and equipment - less allowance for depreciation of \$6,579 and \$6,467, respectively	-	112
Total Assets	<u>\$ 40,247,774</u>	<u>\$ 35,644,285</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,214	\$ 706
Grants payable	265,070	249,100
Accrued compensation and amounts withheld from compensation	6,914	11,785
Liabilities accrued and assumed on sale of Harmarville Rehabilitation Center	14,183	30,397
Total Liabilities	<u>288,381</u>	<u>291,988</u>
Net Assets:		
Unrestricted:		
Undesignated	39,953,497	35,340,239
Temporarily restricted	5,896	12,058
Total Net Assets	<u>39,959,393</u>	<u>35,352,297</u>
Total Liabilities and Net Assets	<u>\$ 40,247,774</u>	<u>\$ 35,644,285</u>

See accompanying notes to financial statements.

FISA FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Unrestricted Net Assets:		
<hr/>		
Revenues, gains, and other support:		
Contributions	\$ 29,221	\$ 11,616
Investment income (loss) - net of expenses of \$172,890 and \$161,728, respectively	6,623,011	3,856,312
Net assets released from restrictions	7,000	7,000
	<u>6,659,232</u>	<u>3,874,928</u>
Expenses:		
Program grants	1,641,315	971,263
Management and general expenses:		
Salaries, wages, and benefits	261,837	262,966
Office operations	69,650	62,296
Insurance	3,621	4,120
Legal and professional	23,425	22,459
Depreciation	112	1,316
Excise tax	7,050	12,539
100th anniversary	24,823	-
Other expenses	11,799	14,083
	<u>402,317</u>	<u>379,779</u>
Total management and general expenses		
Total expenses	<u>2,043,632</u>	<u>1,351,042</u>
Excess (Deficiency) of Revenues, Gains, and Other Support Over Expenses	<u>4,615,600</u>	<u>2,523,886</u>
Discontinued operations revenues (expenses):		
Other	(2,342)	(3,658)
Change in Unrestricted Net Assets	<u>4,613,258</u>	<u>2,520,228</u>
Temporarily Restricted Net Assets:		
<hr/>		
Investment income (loss)	838	1,320
Net assets released from restriction	(7,000)	(7,000)
Change in Temporarily Restricted Net Assets	<u>(6,162)</u>	<u>(5,680)</u>
Change in Net Assets	<u>4,607,096</u>	<u>2,514,548</u>
Net Assets:		
<hr/>		
Beginning of year	35,352,297	32,837,749
End of year	<u>\$ 39,959,393</u>	<u>\$ 35,352,297</u>

See accompanying notes to financial statements.

FISA FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 4,607,096	\$ 2,514,548
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	112	1,316
Net (appreciation) depreciation of investments	(5,904,355)	(4,125,691)
Change in:		
Prepaid taxes	7,050	12,539
Other assets	1,879	(1,931)
Accounts payable and accrued compensation	(3,363)	4,358
Grants payable	15,970	(198,070)
Liabilities accrued and assumed on sale	(16,214)	(14,897)
Total adjustments	<u>(5,898,921)</u>	<u>(4,322,376)</u>
Net cash provided by (used in) operating activities	<u>(1,291,825)</u>	<u>(1,807,828)</u>
Cash Flows From Investing Activities:		
Purchase of investments	(1,292,437)	(6,253,277)
Proceeds from sale of investments	<u>2,501,827</u>	<u>8,102,797</u>
Net cash provided by (used in) investing activities	<u>1,209,390</u>	<u>1,849,520</u>
Net Increase (Decrease) in Cash	(82,435)	41,692
Cash:		
Beginning of year	<u>176,205</u>	<u>134,513</u>
End of year	<u>\$ 93,770</u>	<u>\$ 176,205</u>
Supplemental Information:		
Excise tax paid	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization

FISA Foundation (FISA) is a private non-operating foundation whose principal activity is awarding 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 100-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:

- 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 committees and advisory boards
- Commissioning white papers and reports

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, 2011 AND 2010

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. FISA's net assets, 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, 2011 and 2010, FISA had no permanently restricted net assets.

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 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 temporarily restricted net assets as compared to the total net assets at the beginning of the year.

Cash

Cash consists of demand deposits held in financial institutions.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

Investments

Investments in equity securities and investments in debt securities are stated at fair value. Private equity and hedge funds are also carried at fair value as described in Note 2. 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. Net realized gains/losses are determined using the specific identification method.

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, FISA is qualified as a private, non-operating foundation under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income tax under Section 501(a) of the Internal Revenue Code. The Foundation is obligated to pay federal excise tax on net investment income, as private foundations are subject to tax on the amount by which their minimum investment return exceeds distributions. In addition, FISA is obligated to pay income taxes on its unrelated business income, if any. Further, FISA annually files a Form 990PF and 990T. The forms filed are subject to examination by the IRS generally for three years after they are filed.

Risks and Uncertainties

Financial instruments, which potentially expose FISA to concentrations of credit risk, include cash and investments in marketable securities. As a matter of policy, FISA 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 exposed to various other risks

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

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.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

2. INVESTMENTS

Investments consisted of the following at June 30, 2011 and 2010:

	2011 Fair Value	2010 Fair Value
Money market accounts	\$ 2,150,928	\$ 1,172,400
Private equity funds	2,124,958	1,815,895
Fixed income mutual funds	10,554,094	10,256,385
Equity mutual funds	21,466,446	18,507,325
Offshore hedge funds	3,850,649	3,700,105
	<u>\$ 40,147,075</u>	<u>\$ 35,452,110</u>

Investment income consisted of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Dividend and interest income	\$ 787,772	\$ 805,490
Return of capital	163,174	82,656
Unrealized/realized gains (losses)	5,844,955	3,129,894
	6,795,901	4,018,040
Less: investment expenses	(172,890)	(161,728)
Investment income	6,623,011	3,856,312
Temporarily restricted net assets:		
Unrealized/realized gains (losses)	838	1,320
Investment income, net	<u>\$ 6,623,849</u>	<u>\$ 3,857,632</u>

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value, maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the observable inputs be used when available. Investments whose values are based on quoted market prices in active markets are classified within level 1. Investments determined by reference to quoted prices for similar investments in active markets are classified within level 2. Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all.

FISA reports investments at fair value in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, the organization reports hedge and private equity funds using the net asset value per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the organization to classify these financial instruments into a three level hierarchy, based upon priority of inputs to the valuation technique or in accordance with the net asset value practical expedient rule, which allow for either level 2 or level 3 reporting depending upon lock-up and notice periods associated with the underlying funds.

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

The following table summarizes investments by fair value measurement categories as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Money market accounts	\$ 2,150,928	\$ -	\$ -	\$ 2,150,928
Private equity funds	-	-	2,124,958	2,124,958
Fixed income mutual funds:				
Investment grade bonds	6,137,205	-	-	6,137,205
Treasury inflation protected securities	1,870,213	-	-	1,870,213
Fixed income opportunity	2,546,676	-	-	2,546,676
Total fixed income mutual funds	10,554,094	-	-	10,554,094
Equity mutual funds:				
U.S. large/mid cap value	4,139,737	-	-	
U.S. large/mid cap growth	5,161,404	-	-	5,161,404
U.S. small cap	805,225	-	-	805,225
Non-U.S. developed markets	7,828,955	-	-	7,828,955
Non-U.S. emerging markets	1,985,997	-	-	1,985,997
Commodities	1,545,128	-	-	1,545,128
Total equity mutual funds	21,466,446	-	-	21,466,446
Offshore hedge funds:				
Fixed income hedge funds	-	-	1,423,571	1,423,571
Equity hedge funds	-	-	2,427,078	2,427,078
Total offshore hedge funds	-	-	3,850,649	3,850,649
Total investments	\$ 34,171,468	\$ -	\$ 5,975,607	\$ 40,147,075

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

The following table summarizes investments by fair value measurement categories as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Money market accounts	\$ 1,172,400	\$ -	\$ -	\$ 1,172,400
Private equity funds	-	-	1,815,895	1,815,895
Fixed income mutual funds:				
Investment grade bonds	6,897,022	-	-	6,897,022
Treasury inflation protected securities	1,409,403	-	-	1,409,403
Fixed income opportunity	1,949,960	-	-	1,949,960
Total fixed income mutual funds	<u>10,256,385</u>	<u>-</u>	<u>-</u>	<u>10,256,385</u>
Equity mutual funds:				
U.S. large/mid cap value	3,750,935	-	-	
U.S. large/mid cap growth	4,394,887	-	-	4,394,887
U.S. small cap	793,415	-	-	793,415
Non-U.S. developed markets	7,106,968	-	-	7,106,968
Non-U.S. emerging markets	1,791,220	-	-	1,791,220
Commodities	669,900	-	-	669,900
Total equity mutual funds	<u>18,507,325</u>	<u>-</u>	<u>-</u>	<u>18,507,325</u>
Offshore hedge funds:				
Fixed income hedge funds	-	-	1,333,200	1,333,200
Equity hedge funds	-	-	2,366,905	2,366,905
Total offshore hedge funds	<u>-</u>	<u>-</u>	<u>3,700,105</u>	<u>3,700,105</u>
Total investments	<u>\$ 29,936,110</u>	<u>\$ -</u>	<u>\$ 5,516,000</u>	<u>\$ 35,452,110</u>

Level 3 investments held by FISA include hedge and private equity funds. 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.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

The hedge funds are reported at market value at June 30, 2011. 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 FISA's relative capital contribution. Currently, FISA has no intentions on liquidating the investments in hedge funds held at June 30, 2011.

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. Fair value of the private equity funds is determined by the fund manager, which generally represents the private equity fund's proportionate share of the net assets of the investee funds as reported. The net assets of the investee funds are equal to the sum of capital accounts in the investment entries determined in accordance with accounting principles generally accepted in the United States of America. Currently, FISA has no intention of liquidating the investments in private equity funds held at June 30, 2011.

The following table summarizes the changes in fair values during the year ended June 30, 2011:

	Private Equity Funds	Hedge Funds	Total Level 3 Assets
Balance as of June 30, 2010	\$ 1,815,895	\$ 3,700,105	\$ 5,516,000
Unrealized gains (losses)	35,742	150,544	186,286
Purchases	273,321	-	273,321
Sales	-	-	-
Balance as of June 30, 2011	<u>\$ 2,124,958</u>	<u>\$ 3,850,649</u>	<u>\$ 5,975,607</u>

The following table summarizes the changes in fair values during the year ended June 30, 2010:

	Private Equity Funds	Hedge Funds	Total Level 3 Assets
Balance as of June 30, 2009	\$ 1,401,865	\$ 3,427,334	\$ 4,829,199
Unrealized gains (losses)	42,614	272,771	315,385
Purchases	395,761	-	395,761
Sales	(24,345)	-	(24,345)
Balance as of June 30, 2010	<u>\$ 1,815,895</u>	<u>\$ 3,700,105</u>	<u>\$ 5,516,000</u>

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

3. PRIVATE EQUITY CAPITAL COMMITMENTS

FISA has entered into agreements to commit capital into various private equity funds. The callable capital can be requested at any time by the fund. The remaining capital commitments as of June 30, 2011 are estimated as follows:

	Amount Committed	Amount Drawn	Amount Distributed	Remaining Capital Commitment
Hirtle Callaghan Private Equity Fund II	\$ 700,000	\$ 700,000	\$ 687,990	\$ -
Hirtle Callaghan Private Equity Fund III	300,000	288,783	315,796	11,217
Hirtle Callaghan Private Equity Fund IV	300,000	278,201	188,728	21,799
Hirtle Callaghan Private Equity Fund V	400,000	314,210	58,848	85,790
Hirtle Callaghan Private Equity Fund VI	1,100,000	760,267	51,552	339,733
Hirtle Callaghan Private Equity Fund VII	1,175,000	522,922	20,943	652,078
Hirtle Callaghan Private Equity Fund VIII	130,000	10,543	-	119,457
	<u>\$ 4,105,000</u>	<u>\$ 2,874,926</u>	<u>\$ 1,323,857</u>	<u>\$ 1,230,074</u>

4. ENDOWMENT ASSETS

The primary investment objective of FISA is to preserve and, over time, to increase the inflation-adjusted value of the investment portfolio while covering FISA's annual grant making activities and spending requirements. FISA also strives to maximize, over the long-term, the total rate of return on the investment portfolio, while assuming a level of risk consistent with prudent investment practices for such assets. FISA targets a diversified asset allocation investing in various money market, mutual, private equity, and off-shore hedge funds.

The endowment assets used by FISA to provide income for the maintenance and granting activities is comprised of the various investments held by FISA. During 2011 and 2010, FISA had the following endowment-related investment activities:

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Investment return on endowment assets:		
Interest and dividends	\$ 787,772	\$ 805,490
Return of capital	163,174	82,656
Unrealized gains (losses)	5,741,181	4,043,035
Realized gains (losses)	104,612	(911,821)
Investment fees	(172,890)	(161,728)
Total investment return on endowment assets	6,623,849	3,857,632
Transfers out of endowment	(1,928,884)	(1,581,461)
Total change in endowment funds	4,694,965	2,276,171
Endowment Investment Funds:		
Beginning of year	35,452,110	33,175,939
End of year	\$ 40,147,075	\$ 35,452,110

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

At June 30, 2011 and 2010, liabilities accrued and assumed by FISA from the sale of the Center consisting of supplemental pension agreements amounted to \$14,183 and \$30,397, respectively. The Center entered into supplemental pension agreements for three of its previously retired executives that require total monthly payments of \$3,602 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%.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by FISA is limited by donors. At June 30, 2011 and 2010, temporarily restricted net assets were restricted for the Totten Fund, which is for the benefit of the employees of the Children's Institute. Net assets released from restrictions were released for the cited purposes.

7. GRANTS PAYABLE

FISA has made unconditional promises to give to other organizations the amounts of \$265,070 and \$249,100 for fiscal years 2011 and 2010, respectively. These amounts are

FISA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

reflected on the statements of financial position as grants payable. Of the total grants payable at June 30, 2011, \$196,440 will be paid in fiscal year 2012, with the remaining \$68,630 payable in fiscal year 2013.

8. RELATED PARTY TRANSACTIONS

During 2011 and 2010, certain grants were awarded to grantee organizations with which certain members of the Board of Directors (Board) of FISA are also affiliated as board members. Pursuant to the policies and practices of FISA, the Board was informed about the dual affiliations before voting and the conflicted Board members abstained from voting on those grants.