

THE BIRMINGHAM FOUNDATION
AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2010 and 2009

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Birmingham Foundation
Pittsburgh, Pennsylvania

We have audited the accompanying statements of financial position of The Birmingham Foundation as of June 30, 2010 and 2009, 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 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 The Birmingham Foundation as of June 30, 2010 and 2009, 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.

Sisterson & Co. LLP

September 22, 2010

THE BIRMINGHAM FOUNDATION
STATEMENTS OF FINANCIAL POSITION

June 30,

2010

2009

ASSETS

Cash	\$ 169,276	\$ 65,619
Cash held for agency liability (Note 2)	47,732	19,925
Accrued investment income	69,043	42,829
Refundable federal excise tax	525	3,360
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Investments (Note 3)		
Short-term investments	995,989	1,569,040
Bonds and bond funds	5,364,009	5,008,716
Equities and equity funds	12,024,638	11,012,320
Real estate limited partnership	450,000	--
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Total investments	18,834,636	17,590,076
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Program-related investment (Note 4)	50,000	--
Prepaid rent (Note 7)	162,134	174,134
Furniture and equipment, net of accumulated depreciation of \$40,804 and \$34,957, respectively	8,631	14,478
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Total assets	\$ 19,341,977	\$ 17,910,421
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LIABILITIES AND UNRESTRICTED NET ASSETS

Net payable to broker for unsettled purchases	\$ 247,347	\$ --
Accounts payable	--	1,500
Agency liability (Note 2)	47,732	19,925
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Total liabilities	295,079	21,425
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Unrestricted net assets	19,046,898	17,888,996
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Total liabilities and unrestricted net assets	\$ 19,341,977	\$ 17,910,421
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The accompanying notes are an integral part of these financial statements.

THE BIRMINGHAM FOUNDATION

STATEMENTS OF ACTIVITIES

	Year ended June 30,	
	<u>2010</u>	<u>2009</u>
Income (loss)		
Interest	\$ 192,114	\$ 115,550
Dividends	330,343	470,993
Net gain (loss) on investments	1,852,287	(2,980,429)
Partnership income	8,316	--
Bequest (Note 8)	140,361	--
	<u>2,523,421</u>	<u>(2,393,886)</u>
Contributions and expenses		
Contributions	950,930	871,650
Investment management and custodial fees	118,299	103,154
Administrative expenses	292,455	231,746
Federal excise tax	3,835	8,851
	<u>1,365,519</u>	<u>1,215,401</u>
Increase (decrease) in unrestricted net assets	1,157,902	(3,609,287)
Unrestricted net assets, beginning of year	<u>17,888,996</u>	<u>21,498,283</u>
Unrestricted net assets, end of year	<u>\$ 19,046,898</u>	<u>\$ 17,888,996</u>

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

THE BIRMINGHAM FOUNDATION

STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Increase (decrease) in unrestricted net assets	\$ 1,157,902	\$ (3,609,287)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities		
Net (gain) loss on investments	(1,852,287)	2,980,429
Partnership income	(8,316)	--
Depreciation	5,847	5,836
Increase (decrease) in cash from changes in		
Cash held for agency liability	(27,807)	(19,925)
Accrued investment income	(26,214)	40,716
Refundable federal excise tax	2,835	(3,360)
Prepaid rent	12,000	12,000
Contributions payable	--	(53,000)
Net payable to broker for unsettled purchases	247,347	--
Accounts payable	(1,500)	520
Agency liability	27,807	19,925
Accrued federal excise tax	--	(3,358)
	<u>(462,386)</u>	<u>(629,504)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Net decrease in short-term investments	573,051	157,174
Purchases of investments	(6,991,943)	(11,188,344)
Proceeds from dispositions of investments	7,034,935	11,571,707
Purchase of program-related investment	(50,000)	--
	<u>566,043</u>	<u>540,537</u>
Net cash provided by investing activities		
Net increase (decrease) in cash	103,657	(88,967)
Cash, beginning of year	<u>65,619</u>	<u>154,586</u>
Cash, end of year	<u>\$ 169,276</u>	<u>\$ 65,619</u>
Supplemental disclosure of non-cash investing activities		
Reinvested dividends from mutual funds	<u>\$ 17,214</u>	<u>\$ 21,366</u>

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

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The Birmingham Foundation ("Foundation") was incorporated as a charitable organization to support and provide funding for quality health care and related community services to the South Pittsburgh community and serve the charitable purpose of promoting the well-being of the community. The Foundation's primary areas of charitable focus include Youth Outcomes, Health Care Outcomes, and Neighborhood Development. The Foundation serves as a change agent for improved health and wellness in South Pittsburgh through the dynamic use of resources such as grantmaking, information-sharing, partnering and leveraging of assets. During fiscal year 2010, The Thomas Brown Alton Foundation was created and operated as a separate fund within the Foundation.

The Foundation was established as the result of the net sale of The South Side Hospital of Pittsburgh, Pennsylvania ("Hospital"), to the University of Pittsburgh Medical Center System ("UPMCS") on April 30, 1996 for \$17,000,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments and related income

Investments are reported at fair values in the statements of financial position and changes in the fair values of such investments as well as realized gains and losses are included in net gain (loss) on investments reported in the statements of activities.

The fair values of short-term investments approximate their cost. The fair values of U.S. Government and agency obligations, listed equities, and listed equity and bond funds are based on their quoted market prices. The fair values of corporate bonds are based on recently executed transactions, market price quotations (where observable), and valuation models, or in good faith by management.

The fair value of the real estate limited partnership is estimated in good faith by management due to the absence of a quoted market value. This estimate of fair value is made by (a) considering general factors such as financial information relating to the investment and the industry and economic environment in which the investee operates and (b) using valuation techniques considered relevant to the investment, including methods based on cost, net cash invested, discounted cash flows, appraisals, or the Foundation's proportionate share of the overall value of the investee. All such information is provided by the general partner. However, because of the inherent uncertainty of valuation, this estimated value may differ significantly from the value that would have been used had a ready market for the investment existed. In addition, the Foundation, as a limited partner, is not permitted to withdraw from the partnership prior to liquidation without the approval of the general partner. Therefore, the Foundation's investment in the partnership is illiquid and may be restricted from conversion to cash unless the partnership's assets are sold or the partnership is liquidated. The nature of this investment is such that the general partner generally invests in underlying investments related to the acquiring, owning, operating, managing, trading, holding, selling, and exchanging of real property.

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and related income (continued)

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on the extent of market price observability.

Level I - Inputs are quoted prices in active markets for identical assets of the reporting date. The types of investments held by the Foundation included in Level I include short-term investments, U.S. Government and agency obligations, listed equities, and listed equity and bond funds.

Level II – Inputs are other than quoted market prices included within Level I, however, are observable, either directly or indirectly. The Foundation includes its investments in corporate bonds in Level II.

Level III – Inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Foundation includes its investment in the real estate limited partnership in Level III.

Realized gains and losses on dispositions of investments are determined by the specific identification method, except for mutual funds, which are determined by the average cost method.

Interest and dividend income are recognized on the accrual basis. Distributions from the real estate limited partnership are recorded as income to the extent the investee has cumulative undistributed income allocable to the Foundation; distributions in excess of the amount recognized as income are recorded as a reduction of investment cost.

The Foundation's investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that significant changes in risks in the near term may materially affect the value of investments as compared to the values reported in the financial statements (see Note 3).

Cash

The Foundation maintains its cash in a bank account which, at times, may exceed federally insured limits. The Foundation does not believe it is exposed to any significant credit risk on cash.

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

The Foundation will generally recognize a liability and corresponding expense for both single and multi-year contributions, if present, in the amount expected to be paid when contributions are approved by the Board of Directors. Although the Foundation does not ordinarily impose substantive conditions on recipients of contributions, the Board of Directors does undertake a review prior to paying each installment of multi-year contributions. Therefore, it is possible that unforeseen circumstances could cause the Board to revoke such installments, if present.

Agency liability and restricted cash account

The Foundation is acting as a financial conduit for an unrelated not-for-profit organization. The Foundation holds cash for this organization which represents an agency liability on the Foundation's statements of financial position. The Foundation is responsible for distributing cash as directed by the organization.

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.

Subsequent events

The Foundation evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through September 22, 2010, the date on which the financial statements were available to be issued.

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 3 - INVESTMENTS

Following is a summary of the cost and fair value of investments as of June 30:

	2010		% of Fair value
	Cost	Fair value	
Short-term investments	\$ 995,989	\$ 995,989	5.3%
Bonds and bond funds			
U.S. Government and agency obligations	3,612,884	4,317,007	22.9%
Corporate bonds	367,969	884,851	4.7%
Bond funds	105,999	162,151	0.9%
Total bonds and bond funds	<u>4,086,852</u>	<u>5,364,009</u>	<u>28.5%</u>
Equities and equity funds			
Common stocks			
Domestic	7,066,142	7,317,303	38.8%
Foreign	907,264	749,952	4.0%
Equity funds			
Foreign equity	1,818,905	1,711,800	9.1%
Domestic equity index	916,587	1,187,330	6.3%
U.S. large capitalization value	595,115	547,400	2.9%
U.S. large capitalization growth	290,021	351,453	1.9%
U.S. mid to small capitalization	121,089	109,400	0.5%
Domestic equity real estate	27,218	50,000	0.3%
Total equities and equity funds	<u>11,742,341</u>	<u>12,024,638</u>	<u>63.8%</u>
Real estate limited partnership	<u>450,000</u>	<u>450,000</u>	<u>2.4%</u>
	<u>\$ 17,275,182</u>	<u>\$ 18,834,636</u>	<u>100.0%</u>

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 3 - INVESTMENTS (continued)

	2009		% of Fair value
	Cost	Fair value	
Short-term investments	\$ 1,569,040	\$ 1,569,040	8.9%
Bonds and bond funds			
U.S. Government and agency obligations	3,614,050	4,207,950	23.9%
Corporate bonds	367,969	643,946	3.7%
Bond funds	142,888	156,820	0.9%
Total bonds and bond funds	<u>4,124,907</u>	<u>5,008,716</u>	<u>28.5%</u>
Equities and equity funds			
Common stocks			
Domestic	6,786,130	6,385,562	36.3%
Foreign	759,734	674,128	3.8%
Equity funds			
Foreign equity	1,960,360	1,828,525	10.4%
Domestic equity index	947,570	1,008,700	5.7%
U.S. large capitalization value	595,115	481,395	2.8%
U.S. large capitalization growth	473,781	447,560	2.6%
U.S. mid to small capitalization	121,089	107,500	0.6%
Domestic equity real estate	66,877	78,950	0.4%
Total equities and equity funds	<u>11,710,656</u>	<u>11,012,320</u>	<u>62.6%</u>
	<u>\$ 17,404,603</u>	<u>\$ 17,590,076</u>	<u>100.0%</u>

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 3 - INVESTMENTS (continued)

The valuations of the Foundation's investments by the above fair value hierarchy levels (see Note 2) are as follows as of June 30:

	2010			
	Level I	Level II	Level III	Total
Short-term investments	\$ 995,989	\$ --	\$ --	\$ 995,989
Bonds and bond funds	4,479,158	884,851	--	5,364,009
Equities and equity funds	12,024,638	--	--	12,024,638
Real estate limited partnership	--	--	450,000	450,000
	<u>\$ 17,499,785</u>	<u>\$ 884,851</u>	<u>\$ 450,000</u>	<u>\$ 18,834,636</u>
	2009			
	Level I	Level II	Level III	Total
Short-term investments	\$ 1,569,040	\$ --	\$ --	\$ 1,569,040
Bonds and bond funds	4,364,770	643,946	--	5,008,716
Equities and equity funds	11,012,320	--	--	11,012,320
	<u>\$ 16,946,130</u>	<u>\$ 643,946</u>	<u>\$ --</u>	<u>\$ 17,590,076</u>

Maturities of U.S. Government and agency obligations and corporate bonds as of June 30, 2010 classified based upon the year of final maturity for investments due in installments, are as follows:

Due in fiscal year ending June 30:	Cost	Fair value
2016	\$ 125,000	\$ 257,434
2019	654,756	959,168
2025	1,984,033	1,984,000
2029	1,112,223	1,779,006
2044	104,841	222,250
	<u>\$ 3,980,853</u>	<u>\$ 5,201,858</u>

Investment concentration

An investment in a U.S. Government and agency obligation accounts for \$1,984,000 or approximately 11% of the fair value of the Foundation's investments as of June 30, 2010.

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 4 - PROGRAM-RELATED INVESTMENT

During 2010, the Foundation approved a program-related investment ("PRI"), which consisted of a revolving credit commitment to an unrelated entity. A PRI is defined in Section 4944 of the Internal Revenue Code as an investment in which its primary purpose is to accomplish a charitable, educational, or other similar purpose, and in which the production of income or capital appreciation is not a significant purpose of the investment. The purpose of the loan is to use the proceeds for the acquisition of residential properties in blighted or distressed areas of the South Pittsburgh community and rehabilitate these properties to transform streets and improve neighborhoods. The fair value of the Foundation's PRI approximates its cost. Inputs are unobservable for this investment and determination of fair value would require significant management judgment or estimation. This investment is anticipated to have a less than fair market value return. In the year of the investment, the Foundation receives a credit toward its distribution requirement related to its excise tax calculation (see Note 5). When the investment is recovered by the Foundation, it is required to recognize a negative distribution.

The above commitment matures March 4, 2014 and provides for maximum borrowings of up to \$200,000. The commitment is collateralized by an open-end mortgage on properties acquired with loan proceeds and payments of outstanding loans are guaranteed by two affiliates of the borrower. The Foundation may accelerate maturity of the commitment, with six months notice given to the borrower, beginning on the second anniversary of execution. Interest on the loan accrues at an annual rate of 12% on the outstanding principle balance of each loan made and is payable quarterly in arrears.

As of June 30, 2010, \$150,000 of the above commitment had not been disbursed. Subsequent to year end, the Foundation disbursed an additional \$50,000.

NOTE 5 - TAXES

The Foundation is qualified as a private, non-operating foundation under Section 501(c)(3) of the Internal Revenue Code. The Foundation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code, but is obligated to pay income tax on its unrelated business income (as defined), if any. In addition to a federal excise tax on net investment income, private foundations are subject to tax on the amount by which their minimum investment return exceeds distributions. The Foundation made sufficient distributions in 2010 to avoid tax on the amount by which its minimum investment return (5% of the average fair value of assets) exceeded distributions in 2009. Management expects the Foundation to make sufficient distributions in 2011 to avoid tax on the amount by which its minimum investment return exceeded distributions in 2010. The Foundation has not provided deferred excise or income taxes in these financial statements with respect to tax effects of differences between the bases of assets for financial reporting and tax purposes due to the insignificance of such deferred taxes relative to the financial statements as a whole.

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 5 - TAXES (continued)

The Financial Accounting Standards Board Accounting Standards Codification on Income Taxes clarifies recognition, measurement, presentation and disclosure relating to uncertain tax positions. As required, the Foundation adopted these provisions as of July 1, 2009. The change did not have a material impact on the Foundation's financial statements. For financial statements covering periods prior to fiscal year 2010, the Foundation evaluated uncertain tax positions in accordance with existing accounting principles and made such accruals and disclosures as might have been required. The Foundation's federal income tax and excise tax returns for tax years 2007 and beyond remain subject to examination by the Internal Revenue Service.

NOTE 6 - RETIREMENT PLANS

The Foundation sponsors a simplified employee pension – individual retirement account contribution plan under Section 408(k) of the Internal Revenue Code which covers all full-time employees with one or more years of employment. The Plan is funded entirely with employer contributions based on a percentage (6%) of covered compensation. Contributions totaled \$5,201 and \$779 for the years ended June 30, 2010 and 2009, respectively.

The Foundation also sponsors a retirement plan under Section 403(b) of the Internal Revenue Code which covers all full-time employees. The Plan is funded entirely with employee contributions.

NOTE 7 - COMMITMENT

The Foundation entered into a long-term lease agreement on January 12, 2007, the term of which extends for fifteen years from the date of completion of certain renovations (see below), with the option to renew the lease for three additional five-year periods. The Foundation has the right to terminate this lease with 180 days notice.

The Foundation agreed to fund advances to the landlord for renovations of the leased premises which took place during a prior fiscal year. The advances, which are included as prepaid rent in the statements of financial position, were converted to a promissory note by the landlord, collateralized by a mortgage on the leased real property, and are reimbursed to the Foundation by means of rent credits of \$1,000 per month, which commenced in October 2007.

THE BIRMINGHAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 7 - COMMITMENT (continued)

Future minimum lease obligations (before reduction by the above-mentioned rent credits) under this lease are as follows as of June 30, 2010:

Years ending June 30,	
2011	\$ 24,000
2012	24,000
2013	24,000
2014	24,000
2015	24,000
Thereafter	<u>176,000</u>
	<u>\$ 296,000</u>

The Foundation recognized rental expense of \$24,587 and \$23,554 for the years ended June 30, 2010 and 2009, respectively, including cash payments of \$12,587 and \$11,554 and the amortization of prepaid rent of \$12,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE 8 - BEQUEST

During fiscal year 2010, the Foundation received a bequest of \$140,361 in cash from the estate of an individual. No restrictions were imposed on this bequest.

