

**NORTHWEST HEALTH
FOUNDATION
and
NORTHWEST HEALTH
FOUNDATION FUND II**

**Combined
Audited Financial
Statements**

**For the Years Ended
December 31, 2010 and 2009**



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northwest Health Foundation and
Northwest Health Foundation Fund II
Portland, Oregon

We have audited the accompanying combined statements of financial position of Northwest Health Foundation (the Foundation) and Northwest Health Foundation Fund II (Fund II) as of December 31, 2010 and 2009, and the related combined statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's and Fund II'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 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 and Fund II'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 Northwest Health Foundation and Northwest Health Foundation Fund II as of December 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacobs, P.C.

June 8, 2011

strength in numbers

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**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 4,886,329	\$ 3,015,791
Investments (Note 2)	74,055,195	77,628,346
Prepaid expenses and other assets	286,357	42,308
Net property and equipment (Note 5)	<u>146,079</u>	<u>193,562</u>
 TOTAL ASSETS	 <u>\$ 79,373,960</u>	 <u>\$ 80,880,007</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 964,420	\$ 1,053,526
Line of credit (Note 6)	3,000,000	3,000,000
Grants payable (Note 7)	9,621,146	9,541,452
Deferred revenue	<u>437,493</u>	<u>426,641</u>
 Total liabilities	 <u>14,023,059</u>	 <u>14,021,619</u>
Net assets:		
Unrestricted	50,440,062	49,681,183
Temporarily restricted (Note 8)	<u>14,910,839</u>	<u>17,177,205</u>
 Total net assets	 <u>65,350,901</u>	 <u>66,858,388</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 79,373,960</u>	 <u>\$ 80,880,007</u>

See notes to combined financial statements.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**COMBINED STATEMENTS OF ACTIVITIES
For the years ended December 31, 2010 and 2009**

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue:						
Investment income:						
Interest and dividend income	\$ 824,509	\$ 81,142	\$ 905,651	\$ 950,711	\$ 110,740	\$ 1,061,451
Net realized and unrealized gains	3,891,963	1,599,521	5,491,484	6,839,281	2,961,680	9,800,961
Management fees	(62,093)	(30,074)	(92,167)	(71,944)	(27,025)	(98,969)
Net income (loss) from real estate LLC (Note 3)	<u>30,956</u>	<u>-</u>	<u>30,956</u>	<u>(5,377)</u>	<u>-</u>	<u>(5,377)</u>
Investment income, net of fees	4,685,335	1,650,589	6,335,924	7,712,671	3,045,395	10,758,066
Investment expenses:						
Investment administrative expenses	<u>166,047</u>	<u>53,769</u>	<u>219,816</u>	<u>166,437</u>	<u>59,829</u>	<u>226,266</u>
Net investment income	<u>4,519,288</u>	<u>1,596,820</u>	<u>6,116,108</u>	<u>7,546,234</u>	<u>2,985,566</u>	<u>10,531,800</u>
Support and other revenue:						
Contributions and grants	-	3,559,767	3,559,767	13,910	3,506,201	3,520,111
Administrative fees and other revenue	509,345	-	509,345	434,029	-	434,029
Contributions and fees for sponsored funds	-	398,478	398,478	-	323,518	323,518
Net assets released from restrictions:						
Satisfaction of purpose restrictions	<u>7,821,431</u>	<u>(7,821,431)</u>	<u>-</u>	<u>6,908,358</u>	<u>(6,908,358)</u>	<u>-</u>
Total support and other revenue	<u>8,330,776</u>	<u>(3,863,186)</u>	<u>4,467,590</u>	<u>7,356,297</u>	<u>(3,078,639)</u>	<u>4,277,658</u>
Total revenue	<u>12,850,064</u>	<u>(2,266,366)</u>	<u>10,583,698</u>	<u>14,902,531</u>	<u>(93,073)</u>	<u>14,809,458</u>

(Continued)

See notes to combined financial statements.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**COMBINED STATEMENTS OF ACTIVITIES
For the years ended December 31, 2010 and 2009**

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Expenses:						
Program expenses:						
Health care reform	848,866	-	848,866	888,918	-	888,918
Health care workforce	220,934	-	220,934	233,941	-	233,941
Public health	1,181,816	-	1,181,816	1,370,837	-	1,370,837
Other grants	501,565	-	501,565	465,529	-	465,529
Kaiser Permanente community fund	3,083,364	-	3,083,364	3,138,854	-	3,138,854
Partners in Nursing	2,758,433	-	2,758,433	2,320,661	-	2,320,661
Convergence project	631,151	-	631,151	-	-	-
Sponsored programs	493,055	-	493,055	337,420	-	337,420
Service fees	509,348	-	509,348	425,629	-	425,629
Program administrative expenses	1,124,348	-	1,124,348	1,523,112	-	1,523,112
Total program expenses	<u>11,352,880</u>	<u>-</u>	<u>11,352,880</u>	<u>10,704,901</u>	<u>-</u>	<u>10,704,901</u>
Interest expense	61,047	-	61,047	71,952	-	71,952
General and administrative expenses	<u>677,258</u>	<u>-</u>	<u>677,258</u>	<u>639,835</u>	<u>-</u>	<u>639,835</u>
 Total expenses	 <u>12,091,185</u>	 <u>-</u>	 <u>12,091,185</u>	 <u>11,416,688</u>	 <u>-</u>	 <u>11,416,688</u>
 Change in net assets	 758,879	 (2,266,366)	 (1,507,487)	 3,485,843	 (93,073)	 3,392,770
Net assets - beginning of year	<u>49,681,183</u>	<u>17,177,205</u>	<u>66,858,388</u>	<u>46,195,340</u>	<u>17,270,278</u>	<u>63,465,618</u>
Net assets - end of year	<u>\$ 50,440,062</u>	<u>\$ 14,910,839</u>	<u>\$ 65,350,901</u>	<u>\$ 49,681,183</u>	<u>\$ 17,177,205</u>	<u>\$ 66,858,388</u>

(Concluded)

See notes to combined financial statements.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**COMBINED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009**

	2010	2009
Cash flows from investing activities:		
Net investment income	\$ 6,116,108	\$ 10,531,800
Adjustments to reconcile change in net investment income (loss) to net cash provided by investing activities:		
Additions to furnishings and equipment	(861)	(29,674)
Realized and unrealized gain on investments	(5,491,484)	(9,800,961)
Investments:		
Net change in short-term investments	247,540	1,586,195
Purchase of investments	(7,838,616)	(7,081,971)
Proceeds from the sale of investments	16,686,667	10,093,338
Investment in building	(30,956)	(544,623)
Net cash provided by investing activities	9,688,398	4,754,104
Cash flows from program activities:		
Contributions and other receipts	4,234,393	4,704,299
Grant payments and program funding	(10,148,838)	(9,666,095)
Payments to employees and vendors	(1,903,415)	(1,878,177)
Net cash used in program activities	(7,817,860)	(6,839,973)
Cash flows from financing activities:		
Net proceeds from line of credit	-	350,000
Net cash provided by financing activities	-	350,000
Net increase (decrease) in cash	1,870,538	(1,735,869)
Cash and cash equivalents - beginning of year	3,015,791	4,751,660
Cash and cash equivalents - end of year	\$ 4,886,329	\$ 3,015,791

See notes to combined financial statements.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

Nature of Operations

Northwest Health Foundation (the Foundation) was formed in October of 1997 with net proceeds approximating \$58,000,000 from the sale of the PACC Companies to Foundation Health Systems, Inc. and its subsidiary, QualMed Oregon Health Plan, Inc. The Foundation's mission is to advance, support and promote the health of the people of Oregon and Southwest Washington by funding or sponsoring research and education, the delivery of needed health services, and analyzing public health needs. The Foundation's programs include grant making, community outreach activities and policy advocacy.

Northwest Health Foundation Fund II (Fund II) began operations in 2003 and has established several donor-advised funds and received contributions in excess of \$30 million. Fund II exists to manage contributions and grants received to fund the mission of the Foundation through public support.

Principles of Combination and Basis of Presentation

The combined financial statements include the accounts of the Foundation and Fund II. All intercompany transactions and balances have been eliminated. The Foundation is the sole member of Philanthropy Center LLC (LLC) which owns an office building in Portland, Oregon. The equity of the LLC has been included in the Foundation's investments.

The Foundation and Fund II report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation and Fund II had unrestricted and temporarily restricted net assets in 2010 and 2009.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation and Fund II consider all unrestricted highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES, Continued**

Investments

- *Marketable Securities:* Investments in marketable securities are stated at current market value.
- *Alternative investments:* Investments in limited partnership interests and other equity securities have been estimated by management (in the absence of readily determinable fair values) based on information provided by fund managers or the general partners.
- *Real Estate:* The Foundation is the sole member of a limited liability company (LLC) that owns an office building in Portland, Oregon. The building was acquired by the LLC on February 29, 2008 (see Note 3). Investments in the building and improvements are stated at depreciated cost by the LLC.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Capitalized property and equipment are stated at cost or, if donated, at fair market value at the time of receipt. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of prepaid insurance, miscellaneous expenses and grants receivable. Grants receivables are unsecured and are expected to be received within one year.

Grants and Grants Payable

Grants payable represents grants that have been approved prior to year end, but remain unpaid as of year-end. Grant expense is recorded net of approved grants that have been cancelled or refunded during the year.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributions, Continued

Conditional grants are not recorded until all conditions for receiving the grant have been met.

Deferred Revenue

Contract fees are recognized as revenue in the period earned as the related services are rendered. Deferred revenue represents monies collected in advance for contract service fees.

Income and Excise Taxes

The Foundation is an Oregon nonprofit corporation, and is a public welfare organization exempt from federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code and applicable state law.

Fund II is an Oregon nonprofit corporation, and is a charitable organization exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Fund II was a private foundation and was subject to federal excise tax of 2% (reduced to 1% if certain requirements were met) on net investment income. Effective January 1, 2006, Fund II received a conditional determination that it is reclassified as a public charity, subject to meeting public support requirements. On December 31, 2010, Fund II completed the conditional determination period and is currently pending permanent determination that it is classified as a public charity. If it is determined that Fund II does not meet the public support requirements to be classified as a public charity, deferred excise taxes would be payable. Management estimates the contingent excise taxes are not material to the financial statements and have not been accrued.

Some income received from investments in pass-through entities, resulting from activities considered not substantially related to the Foundation or Fund II's tax-exempt purpose, may be subject to reporting as unrelated business income. Taxes resulting from unrelated business income were insignificant to the financial statements for 2010 and 2009.

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.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events

The Foundation and Fund II have evaluated all subsequent events through June 8, 2011, the date the financial statements were available to be issued.

2. INVESTMENTS

All funds not required for operations are placed with investment managers. The investment portfolios include the following financial instruments all of which are carried at fair value:

	2010	2009
Cash equivalents	\$ 278,989	\$ 474,829
Marketable securities:		
Fixed income securities	7,256,076	11,106,876
Domestic equities	15,612,330	17,812,341
International equities	10,849,774	10,895,863
Total marketable securities	33,718,180	39,815,080
Alternative investment interests:		
Hedge funds	18,889,378	17,660,681
Private equities	13,870,201	12,309,518
Real estate funds	1,468,802	1,569,549
Total alternative investment interests	34,228,381	31,539,748
Real estate (Note 3)	5,829,645	5,798,689
Total investments	\$ 74,055,195	\$ 77,628,346

Cost basis of investments totaled \$66,329,847 for 2010 and \$74,033,234 for 2009.

Commitments for alternative investment interests not yet funded approximate \$4,530,000 at December 31, 2010.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

3. INVESTMENT IN REAL ESTATE LLC

The Foundation is the sole member in an LLC that owns a building, which is held for investment purposes and leased to various organizations. All net activity of the LLC is reported by the Foundation in the combined financial statements. Additionally, The Foundation and Fund II have offices located in the building.

The following is information regarding the financial position and activities of the LLC:

	<u>2010</u>	<u>2009</u>
Assets:		
Cash	\$ 313,190	\$ 42,622
Accounts receivable	18	44,818
Prepaid expenses	35,529	34,175
Land, building and improvements, net of accumulated depreciation of \$711,765 and \$468,178, respectively	<u>5,499,804</u>	<u>5,719,797</u>
Total assets	<u>5,848,541</u>	<u>5,841,412</u>
Liabilities		
Accounts payable and other liabilities	<u>18,896</u>	<u>42,723</u>
Net equity	<u>\$ 5,829,645</u>	<u>\$ 5,798,689</u>
Income:		
Rent, including rent from the Foundation and Fund II of \$221,196	\$ 593,407	\$ 566,871
Interest income	<u>1,364</u>	<u>1,598</u>
Total income	594,771	568,469
Operating expenses	<u>563,815</u>	<u>573,846</u>
Change in net assets	<u>\$ 30,956</u>	<u>\$ (5,377)</u>
Member contributions during the year	<u>\$ -</u>	<u>\$ 550,000</u>

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

4. ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable included in prepaid expenses and other assets consist of the following at December 31, 2010 and 2009:

	2010	2009
Kaiser Permanente NW	\$ 69,489	\$ -
Convergence Project	125,000	-
Other accounts receivable	16,475	7,725
Total accounts and grants receivable	\$ 210,964	\$ 7,725

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 and 2009 consist of the following:

	2010	2009
Office furniture and equipment	\$ 492,578	\$ 491,717
Less accumulated depreciation	346,499	298,155
Net property and equipment	\$ 146,079	\$ 193,562

Depreciation expense was \$48,344 and \$49,697 for the years ended December 31, 2010 and 2009, respectively.

6. LINE OF CREDIT

The Foundation has a \$5,000,000 revolving line of credit with Bank of America. Interest on the line is payable monthly at the floating LIBOR daily rate plus 1.25% (1.51% at December 31, 2010 and 1.48% at December 31, 2009). The line matures on August 5, 2011, is secured by investments and is subject to certain non-financial covenants. Outstanding advances on the line of credit totaled \$3,000,000 at December 31, 2010 and 2009. Interest expenses on the line of credit totaled \$61,047 and \$71,492 for the years ended December 31, 2010 and 2009, respectively.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

7. GRANTS PAYABLE

Grants payable represent unconditional promises to give as follows:

	<u>2010</u>	<u>2009</u>
Due within one year	\$ 7,360,285	\$ 6,529,493
Due within two to three years	<u>2,260,861</u>	<u>3,011,959</u>
Total grants payable	<u>\$ 9,621,146</u>	<u>\$ 9,541,452</u>

Management has estimated that the present value adjustment for grants due in more than one year is not material to the financial statements.

8. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Neighborhood Health Clinics	\$ 36,860	\$ 171,970
Kaiser Permanente Community Fund	12,782,538	14,724,864
Kaiser Permanente Center for Health Research Endowed Scientist Fund	1,531,814	1,408,669
Convergence Project	17,861	264,012
Partners Investing in Nursing	144,192	168,076
Physical Activity and Healthy Eating	63,942	125,979
CareOregon Hospital Transformation	276,149	100,974
Oregon Health IT Exchange Project	4,644	62,489
Jennifer Baker Fund	20,204	16,009
Administration Fund	14,222	13,701
Oregon Simulation Alliance	-	57,778
Jefferson Regional Health Alliance	4,712	18,965
Oregon Health Care Workforce Institute	-	30,662
Louise Shores Scholarship Fund	5,749	5,292
Voices: Loud and Clear	7,851	7,765
Latino Fund of Oregon	<u>101</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 14,910,839</u>	<u>\$ 17,177,205</u>

The Kaiser Permanente Community Fund is restricted to advancing the health of residents of the donor's service areas within Oregon and Southwest Washington.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

9. RETIREMENT PLAN

The Foundation has a defined contribution 401(k) profit sharing plan which covers employees who meet certain eligibility requirements. Employees make voluntary contributions to the plan. Annually, the board of directors approves a contribution to the plan. The contribution rate approved by the board was 14% for 2010 and 2009. The contributions to the profit sharing plan totaled \$165,178 and \$155,430 for the years ended December 31, 2010 and 2009, respectively.

10. LEASE COMMITMENTS

The Foundation leases a printer under an operating lease agreement expiring in February 2014. Lease expense for the years ended December 31, 2010 and 2009 approximated \$14,800 and \$14,500, respectively.

Future annual rentals under the agreement is as follows:

	Lease Expense
December 31, 2011	\$ 7,675
2012	7,675
2013	7,675
2014	960

In addition to the lease listed above, the Foundation leases its office space from a wholly-owned single member LLC that owns the building where the Foundation and Fund II are located (see Note 3).

The LLC leases office space in the building to other organizations. Lease terms generally range from one to three years. Minimum future rentals under noncancelable leases are as follows:

	Lease Income
December 31, 2011	\$ 294,700
2012	183,500
2013	74,200
2014	19,600
2015	14,600

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

11. DEFERRED COMPENSATION PLAN

The Foundation has a deferred compensation plan for selected employees. The Foundation's board annually approves discretionary contributions to the plan. Employees may select to allocate their accounts to investments owned by the Foundation and individual accounts reflect gains and losses based on the performance of the investments selected. The plan is unfunded. The Foundation has recorded a liability equal to the amounts due for all participants of \$546,723 and \$453,688 as of December 31, 2010 and 2009, respectively. Total contributions paid to all participants for the years ending December 31, 2010 and 2009 was \$69,386 and \$68,025, respectively.

Pursuant to the plan, fully vested balances are required to be distributed to the participants. Subsequent to yearend, approximately \$419,000 was distributed.

12. REQUIRED DISTRIBUTION

The by-laws of the Foundation specify that the board of directors adopt a distribution policy requiring the periodic distribution of an appropriate percentage of the fair market value of all the permanent assets of the Foundation, rather than the distribution of income and the retention of principal. It is anticipated that such policy will result, from time-to-time, in the accumulation of income or the distribution of principal.

13. ALLOCATED EXPENSES

Costs of providing program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting services based on estimates of employee time incurred and the usage of resources. Insignificant expenses incurred for fundraising are included in general and administrative expenses. The nature of the activities in obtaining contributions received by Fund II are driven by the donors who have sought out Fund II as an organization that makes grants and, as such, little cost for fundraising has been incurred. Fundraising costs totaled approximately \$47,800 for the year ended December 31, 2010. No fundraising costs were incurred during 2009.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

14. CONCENTRATIONS

Financial instruments that may subject the Foundation and Fund II to concentration of credit risk include cash balances which, from time to time, may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) and securities for which the values are subject to changes in market value. To limit credit risk, the Foundation and Fund II place cash equivalents with high credit quality financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution.

Investment securities are exposed to various risks such as interest rate, market, foreign currency, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

For the year ended December 31, 2010, the Foundation's revenues are concentrated with approximately 31% coming from one source.

15. STATEMENTS OF CASH FLOWS RECONCILIATION

The following presents a reconciliation of the change in net assets (as reported on the statements of activities) to net cash used in program activities (as reported on the statements of cash flows):

	2010	2009
Change in net assets:	\$ (1,507,487)	\$ 3,392,770
Adjustments to reconcile the change in net assets to net cash used in program activities:		
Net investment activity	(6,116,108)	(10,531,800)
Depreciation	48,344	49,697
Decrease in:		
Other assets	(244,049)	139,447
Increase (decrease) in:		
Accounts payable and other liabilities	(89,106)	504,998
Grants payable	79,694	(821,726)
Deferred revenue	10,852	426,641
	\$ (7,817,860)	\$ (6,839,973)
Net cash used in program activities		

Cash paid for interest totaled \$61,047 and \$71,492 for the years ended December 31, 2010 and 2009, respectively.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

16. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Fair values of assets measured on a recurring basis at December 31, 2010 and 2009 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2010:</u>				
Investments - Marketable securities				
Fixed income securities	\$ 7,256,076	\$ 7,256,076	\$ -	\$ -
Domestic equities	15,612,330	15,612,330	-	-
International equities	10,849,774	10,849,774	-	-
Investments - Alternative				
Hedge funds	18,889,378	-	-	18,889,378
Private equities	13,870,201	-	-	13,870,201
Real estate funds	1,468,802	-	-	1,468,802
	<u>\$ 67,946,561</u>	<u>\$ 33,718,180</u>	<u>\$ -</u>	<u>\$ 34,228,381</u>
<u>December 31, 2009:</u>				
Investments - Marketable securities				
Fixed income securities	\$ 11,106,876	\$ 11,106,876	\$ -	\$ -
Domestic equities	17,812,341	17,812,341	-	-
International equities	10,895,863	10,895,863	-	-
Investments - Alternative				
Hedge funds	17,660,681	-	-	17,660,681
Private equities	12,309,518	-	-	12,309,518
Real estate funds	1,569,549	-	-	1,569,549
	<u>\$ 71,354,828</u>	<u>\$ 39,815,080</u>	<u>\$ -</u>	<u>\$ 31,539,748</u>

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2010 and 2009**

16. FAIR VALUE MEASUREMENTS, continued

Fair values of investments in marketable securities are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values of investments in alternative investments are estimated by management (in the absence of readily determinable fair values) based on information provided by fund managers or the general partners.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

Alternative investments which include investments in limited partnership interests and other equity securities:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 31,539,748	\$ 31,248,326
Net capital contributions and distributions	833,529	539,110
Realized gains (losses)	964,595	(1,529,582)
Unrealized gains	<u>890,509</u>	<u>1,281,894</u>
Balance at end of year	<u>\$ 34,228,381</u>	<u>\$ 31,539,748</u>

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Northwest Health Foundation and
Northwest Health Foundation Fund II
Portland, Oregon

Our report on our audit of the combined financial statements of Northwest Health Foundation and Northwest Health Foundation Fund II as of December 31, 2010 appears on page 1. This audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information in Schedules I and II is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

McDonald Jacobs, P.C.

June 8, 2011

Strength in Numbers

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**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**SUPPLEMENTARY INFORMATION - SCHEDULE I
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2010**

	<u>Northwest Health Foundation</u>	<u>Northwest Health Foundation Fund II</u>	<u>Eliminating Entries</u>	<u>Combined Totals</u>
ASSETS				
Cash and cash equivalents	\$ 3,005,487	\$ 1,880,842	\$ -	\$ 4,886,329
Investments	52,613,415	21,441,780	-	74,055,195
Prepaid expenses and other assets	19,480	266,877	-	286,357
Intercompany receivable	-	1,473,747	(1,473,747)	-
Net property and equipment	<u>146,079</u>	<u>-</u>	<u>-</u>	<u>146,079</u>
TOTAL ASSETS	<u>\$ 55,784,461</u>	<u>\$ 25,063,246</u>	<u>\$ (1,473,747)</u>	<u>\$ 79,373,960</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 652,464	\$ 311,956	\$ -	\$ 964,420
Line of credit	3,000,000	-	-	3,000,000
Grants payable	1,752,613	7,868,533	-	9,621,146
Deferred revenue	-	437,493	-	437,493
Intercompany payable	<u>1,473,747</u>	<u>-</u>	<u>(1,473,747)</u>	<u>-</u>
Total liabilities	<u>6,878,824</u>	<u>8,617,982</u>	<u>(1,473,747)</u>	<u>14,023,059</u>
Net assets:				
Unrestricted	48,905,637	1,534,425	-	50,440,062
Temporarily restricted	<u>-</u>	<u>14,910,839</u>	<u>-</u>	<u>14,910,839</u>
Total net assets	<u>48,905,637</u>	<u>16,445,264</u>	<u>-</u>	<u>65,350,901</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 55,784,461</u>	<u>\$ 25,063,246</u>	<u>\$ (1,473,747)</u>	<u>\$ 79,373,960</u>

See auditor's report on supplementary information.

**NORTHWEST HEALTH FOUNDATION
AND NORTHWEST HEALTH FOUNDATION FUND II**

**SUPPLEMENTARY INFORMATION - SCHEDULE II
COMBINING STATEMENT OF ACTIVITIES**

For the year ended December 31, 2010

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
Investment income:				
Interest and dividend income	\$ 520,832	\$ 384,819	\$ -	\$ 905,651
Net realized and unrealized gains	3,661,847	1,829,637	-	5,491,484
Management fees	(58,728)	(33,439)	-	(92,167)
Net income from real estate LLC	30,956	-	-	30,956
Investment income, net of fees	<u>4,154,907</u>	<u>2,181,017</u>	-	<u>6,335,924</u>
Investment expenses:				
Investment administrative expenses	148,768	71,048	-	219,816
Net investment income	<u>4,006,139</u>	<u>2,109,969</u>	-	<u>6,116,108</u>
Other revenue:				
Contributions and grants	-	3,559,767	-	3,559,767
Administrative fees	-	509,345	-	509,345
Contributions and fees for sponsored funds	-	398,478	-	398,478
Net assets released from restrictions	-	-	-	-
Total other revenue	<u>-</u>	<u>4,467,590</u>	-	<u>4,467,590</u>
Total revenue, net of investment losses	<u>4,006,139</u>	<u>6,577,559</u>	-	<u>10,583,698</u>
Expenses:				
Program expenses:				
Health care reform	848,866	-	-	848,866
Health care workforce	220,934	-	-	220,934
Public health	1,181,816	-	-	1,181,816
Other grants	101,750	399,815	-	501,565
Kaiser Permanente community fund	-	3,083,364	-	3,083,364
Partners in Nursing	-	2,758,433	-	2,758,433
Convergence project	-	631,151	-	631,151
Sponsored programs	-	493,055	-	493,055
Service fees	-	509,348	-	509,348
Program administrative expenses	718,946	405,402	-	1,124,348
Total program expenses	<u>3,072,312</u>	<u>8,280,568</u>	-	<u>11,352,880</u>
Interest expense	61,047	-	-	61,047
General and administrative expenses	<u>421,075</u>	<u>256,183</u>	-	<u>677,258</u>
Total expenses	<u>3,554,434</u>	<u>8,536,751</u>	-	<u>12,091,185</u>
Change in net assets	451,705	(1,959,192)	-	(1,507,487)
Net assets - beginning of year	<u>48,453,932</u>	<u>18,404,456</u>	-	<u>66,858,388</u>
Net assets - end of year	<u>\$ 48,905,637</u>	<u>\$ 16,445,264</u>	\$ -	<u>\$ 65,350,901</u>

See auditor's report on supplementary information.