

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

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**Combined  
Audited Financial  
Statements**

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**For the Years Ended  
December 31, 2011 and 2010**



MCDONALD JACOBS

## INDEPENDENT AUDITOR'S REPORT

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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, 2011 and 2010, 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, 2011 and 2010, 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.*

May 30, 2012

*Strength in Numbers*

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

**COMBINED STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,598,427	\$ 4,886,329
Investments (Note 2)	61,416,798	74,055,195
Grants receivable and other assets (Note 4)	396,846	286,357
Net property and equipment (Note 5)	<u>119,816</u>	<u>146,079</u>
 TOTAL ASSETS	 <u>\$ 72,531,887</u>	 <u>\$ 79,373,960</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 655,617	\$ 964,420
Line of credit (Note 6)	3,000,000	3,000,000
Grants payable (Note 7)	6,862,212	9,621,146
Deferred revenue	<u>-</u>	<u>437,493</u>
 Total liabilities	 <u>10,517,829</u>	 <u>14,023,059</u>
Net assets:		
Unrestricted	47,108,545	50,440,062
Temporarily restricted (Note 8)	<u>14,905,513</u>	<u>14,910,839</u>
 Total net assets	 <u>62,014,058</u>	 <u>65,350,901</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 72,531,887</u>	 <u>\$ 79,373,960</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, 2011 and 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue:</b>						
<b>Investment income:</b>						
Interest and dividend income	\$ 364,343	\$ 238,269	\$ 602,612	\$ 824,509	\$ 81,142	\$ 905,651
Net realized and unrealized gains (losses)	15,123	(355,633)	(340,510)	3,891,963	1,599,521	5,491,484
Management fees	(24,175)	(19,073)	(43,248)	(62,093)	(30,074)	(92,167)
Net income from real estate LLC (Note 3)	<u>60,074</u>	<u>-</u>	<u>60,074</u>	<u>30,956</u>	<u>-</u>	<u>30,956</u>
Investment income (loss), net of fees	415,365	(136,437)	278,928	4,685,335	1,650,589	6,335,924
 Investment expenses:						
Investment administrative expenses	<u>122,022</u>	<u>74,992</u>	<u>197,014</u>	<u>166,047</u>	<u>53,769</u>	<u>219,816</u>
 Net investment income (loss)	<u>293,343</u>	<u>(211,429)</u>	<u>81,914</u>	<u>4,519,288</u>	<u>1,596,820</u>	<u>6,116,108</u>
 <b>Support and other revenue:</b>						
Contributions and grants	-	5,814,992	5,814,992	-	3,559,767	3,559,767
Administrative fees and other revenue	481,221	-	481,221	509,345	-	509,345
Contributions and fees for sponsored funds	-	120,642	120,642	-	398,478	398,478
Net assets released from restrictions:						
Satisfaction of purpose restrictions	<u>5,729,531</u>	<u>(5,729,531)</u>	<u>-</u>	<u>7,821,431</u>	<u>(7,821,431)</u>	<u>-</u>
Total support and other revenue	<u>6,210,752</u>	<u>206,103</u>	<u>6,416,855</u>	<u>8,330,776</u>	<u>(3,863,186)</u>	<u>4,467,590</u>
 Total revenue	<u>6,504,095</u>	<u>(5,326)</u>	<u>6,498,769</u>	<u>12,850,064</u>	<u>(2,266,366)</u>	<u>10,583,698</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, 2011 and 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Total	Total		Total	
<b>Expenses:</b>						
Program expenses:						
Health care reform	885,767	-	885,767	848,866	-	848,866
Health care workforce	167,370	-	167,370	220,934	-	220,934
Public health	968,833	-	968,833	1,181,816	-	1,181,816
Other grants	550,694	-	550,694	501,565	-	501,565
Kaiser Permanente Community Fund	2,213,325	-	2,213,325	3,083,364	-	3,083,364
Partners Investing in Nursing	2,633,773	-	2,633,773	2,758,433	-	2,758,433
Convergence project	1,326	-	1,326	631,151	-	631,151
Sponsored programs	31,210	-	31,210	493,055	-	493,055
Service fees	481,019	-	481,019	509,348	-	509,348
Program administrative expenses	1,059,139	-	1,059,139	1,124,348	-	1,124,348
Total program expenses	8,992,456	-	8,992,456	11,352,880	-	11,352,880
Interest expense	66,317	-	66,317	61,047	-	61,047
General and administrative expenses	776,839	-	776,839	677,258	-	677,258
Total expenses	9,835,612	-	9,835,612	12,091,185	-	12,091,185
Change in net assets	(3,331,517)	(5,326)	(3,336,843)	758,879	(2,266,366)	(1,507,487)
Net assets - beginning of year	50,440,062	14,910,839	65,350,901	49,681,183	17,177,205	66,858,388
Net assets - end of year	\$ 47,108,545	\$ 14,905,513	\$ 62,014,058	\$ 50,440,062	\$ 14,910,839	\$ 65,350,901

*(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, 2011 and 2010**

	2011	2010
<b>Cash flows from investing activities:</b>		
Net investment income (loss)	\$ 81,914	\$ 6,116,108
Adjustments to reconcile change in net investment income (loss) to net cash provided by investing activities:		
Additions to furnishings and equipment	(20,192)	(861)
Realized and unrealized (gain) loss on investments	340,510	(5,491,484)
Investments:		
Net change in short-term investments	(4,727,158)	247,540
Purchase of investments	(21,041,940)	(7,838,616)
Proceeds from the sale of investments	38,128,579	16,686,667
Investment in building	(61,594)	(30,956)
Net cash provided by investing activities	12,700,119	9,688,398
<b>Cash flows from program activities:</b>		
Contributions and other receipts	5,868,873	4,234,393
Grant payments and program funding	(10,692,251)	(10,148,838)
Payments to employees and vendors	(2,164,643)	(1,903,415)
Net cash used in program activities	(6,988,021)	(7,817,860)
Net increase in cash	5,712,098	1,870,538
Cash and cash equivalents - beginning of year	4,886,329	3,015,791
Cash and cash equivalents - end of year	\$ 10,598,427	\$ 4,886,329

See notes to combined financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**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 2011 and 2010.

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, 2011 and 2010

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.

Grants Receivable and Other Assets

Grants receivable and other assets consist of grants receivable, prepaid insurance and miscellaneous expenses. 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, 2011 and 2010**

**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.

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 2011 and 2010.

The Foundation and Fund II's information and income tax returns for years ended December 31, 2007 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

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, 2011 and 2010**

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

Subsequent Events

The Foundation and Fund II have evaluated all subsequent events through May 30, 2012, 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:

	2011	2010
Cash equivalents	\$ 102,910	\$ 278,989
Marketable securities:		
Fixed income securities	8,976,525	7,256,076
Domestic equities	8,847,425	15,612,330
International equities	6,634,126	10,849,774
Total marketable securities	24,458,076	33,718,180
Alternative investment interests:		
Hedge funds	14,702,880	18,889,378
Private equities	14,547,408	13,870,201
Real estate funds	1,714,285	1,468,802
Total alternative investment interests	30,964,573	34,228,381
Real estate (Note 3)	5,891,239	5,829,645
Total investments	\$ 61,416,798	\$ 74,055,195

Cost basis of investments totaled \$57,044,098 for 2011 and \$66,329,847 for 2010.

Commitments for alternative investment interests not yet funded approximate \$5,850,000 at December 31, 2011.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**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>2011</u>	<u>2010</u>
Assets:		
Cash	\$ 572,093	\$ 313,190
Accounts receivable	-	18
Prepaid expenses	36,504	35,529
Land, building and improvements, net of accumulated depreciation of \$958,475 and \$711,765, respectively	<u>5,294,122</u>	<u>5,499,804</u>
Total assets	<u>5,902,719</u>	<u>5,848,541</u>
Liabilities		
Accounts payable and other liabilities	<u>11,480</u>	<u>18,896</u>
Net equity	<u>\$ 5,891,239</u>	<u>\$ 5,829,645</u>
Income:		
Rent, including rent from the Foundation and Fund II of \$226,730 and \$221,196, respectively	\$ 615,360	\$ 593,407
Interest income	<u>2,089</u>	<u>1,364</u>
Total income	<u>617,449</u>	<u>594,771</u>
Operating expenses	<u>557,375</u>	<u>563,815</u>
Net income	<u>\$ 60,074</u>	<u>\$ 30,956</u>
Member contributions during the year	<u>\$ -</u>	<u>\$ -</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**4. GRANTS RECEIVABLE AND OTHER ASSETS**

Grants receivable and other assets consist of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Kaiser Permanente NW	\$ 207,022	\$ 69,489
Other grants receivable	156,054	125,000
Accounts receivable and other assets	<u>33,770</u>	<u>91,868</u>
Total grants and accounts receivable	<u>\$ 396,846</u>	<u>\$ 286,357</u>

**5. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Office furniture and equipment	\$ 512,770	\$ 492,578
Less accumulated depreciation	<u>392,954</u>	<u>346,499</u>
Net property and equipment	<u>\$ 119,816</u>	<u>\$ 146,079</u>

Depreciation expense was \$46,455 and \$48,344 for the years ended December 31, 2011 and 2010, 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% (1.54% at December 31, 2011 and 1.51% at December 31, 2010). The line matures on August 5, 2012, 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, 2011 and 2010. Interest expenses on the line of credit totaled \$66,317 and \$61,047 for the years ended December 31, 2011 and 2010, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**7. GRANTS PAYABLE**

Grants payable represent unconditional promises to give as follows:

	<u>2011</u>	<u>2010</u>
Payable within one year	\$ 4,702,387	\$ 7,360,285
Payable within two to three years	<u>2,159,825</u>	<u>2,260,861</u>
Total grants payable	<u>\$ 6,862,212</u>	<u>\$ 9,621,146</u>

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

**8. RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Neighborhood Health Clinics	\$ 36,641	\$ 36,860
Kaiser Permanente Community Fund	10,142,542	12,782,538
Kaiser Permanente Center for Health Research Endowed Scientist Fund	1,324,494	1,531,814
Convergence Project Food Systems Fund	225,000	-
Convergence Project	-	17,861
Partners Investing in Nursing	162,867	144,192
Physical Activity and Healthy Eating	61,612	63,942
CareOregon Hospital Transformation	2,649,736	276,149
National Nurse Funders Collaborative	48,178	-
Oregon Health IT Exchange Project	4,644	4,644
Jennifer Baker Fund	22,186	20,204
Oregon Consortium for Nursing Education	24,389	-
Administration Fund	17,738	14,222
Investment in Oregon Alliance	39,900	-
Patient Centered Primary Care	25,000	-
Jefferson Regional Health Alliance	92,944	4,712
GIH State Grant Writing Assistance	15,000	-
Louise Shores Scholarship Fund	5,683	5,749
Voices: Loud and Clear	6,854	7,851
Latino Fund of Oregon	<u>105</u>	<u>101</u>
Total temporarily restricted net assets	<u>\$ 14,905,513</u>	<u>\$ 14,910,839</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, 2011 and 2010**

**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 10% for 2011 and 14% for 2010. The contributions to the profit sharing plan totaled \$119,450 and \$176,198 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010 approximated \$10,900 and \$14,800, respectively.

Future annual rentals under the agreement is as follows:

	Lease Expense
December 31, 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, 2012	\$ 187,900
2013	78,600
2014	20,000
2015	14,600

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**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. Pursuant to the plan, fully vested balances are required to be distributed to the participants. During 2011, approximately \$419,000 was distributed. The Foundation has recorded a liability equal to the amounts due for all participants of \$69,555 and \$546,723 as of December 31, 2011 and 2010, respectively. Total contributions paid to all participants for the years ending December 31, 2011 and 2010 was \$15,642 and \$69,386, respectively.

**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 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. Fundraising expenses 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 \$168,100 and \$47,800 for the years ended December 31, 2011 and 2010, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**14. CONCENTRATIONS AND OTHER COMMITMENTS**

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, 2011, the Foundation's contribution revenues are concentrated with approximately 83% coming from two sources (80% from one source in 2010).

During 2011, the Foundation's wholly-owned real estate LLC entered into a nonbinding agreement for roof replacement at a cost of approximately \$260,000. Significant construction began in early 2012 and is expected to be completed by June 30, 2012.



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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**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):

	2011	2010
Change in net assets:	\$ (3,336,843)	\$ (1,507,487)
Adjustments to reconcile the change in net assets to net cash used in program activities:		
Net investment activity	(81,914)	(6,116,108)
Depreciation	46,455	48,344
Decrease in:		
Other assets	(110,489)	(244,049)
Increase (decrease) in:		
Accounts payable and other liabilities	(308,803)	(89,106)
Grants payable	(2,758,934)	79,694
Deferred revenue	(437,493)	10,852
Net cash used in program activities	\$ (6,988,021)	\$ (7,817,860)

Cash paid for interest totaled \$66,317 and \$61,047 for the years ended December 31, 2011 and 2010, respectively.

**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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**16. FAIR VALUE MEASUREMENTS, Continued**

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, 2011 and 2010 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2011:</u>				
Investments - Marketable securities				
Fixed income securities	\$ 8,976,525	\$ 8,976,525	\$ -	\$ -
Domestic equities	8,847,425	8,847,425	-	-
International equities	6,634,126	6,634,126	-	-
Investments - Alternative				
Hedge funds	14,702,880	-	-	14,702,880
Private equities	14,547,408	-	-	14,547,408
Real estate funds	1,714,285	-	-	1,714,285
	<u>\$ 55,422,649</u>	<u>\$ 24,458,076</u>	<u>\$ -</u>	<u>\$ 30,964,573</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>

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. There were no changes in the valuation techniques during the year ended December 31, 2011.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
December 31, 2011 and 2010**

**16. FAIR VALUE MEASUREMENTS, continued**

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:

	2011	2010
Balance at beginning of year	\$ 34,228,381	\$ 31,539,748
Net capital contributions and distributions	(2,645,144)	833,529
Realized gains	2,108,294	964,595
Unrealized gains (losses)	(2,726,958)	890,509
Balance at end of year	\$ 30,964,573	\$ 34,228,381

Gains and losses from investments are included in unrestricted and temporarily restricted investment income in the statement of activities.

**SUPPLEMENTARY INFORMATION**



McDONALD JACOBS

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

*Jake Jacobs, CPA*

*Susan J. Marks, CPA*

*Mark A. Clift, CPA*

*Karin S. Wandtke, CPA*

*Sang Ahn, CPA*

*Jill Oswald  
Principal*

*Dennis C. Johnson, CPA  
of counsel*

*James R. McDonald, CPA  
of counsel*

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

We have audited the combined financial statements of Northwest Health Foundation and Northwest Health Foundation Fund II and as of and for the years ended December 31, 2011 and 2010, and our report thereon dated May 30, 2012, which expressed an unqualified opinion on those combined financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information in Schedules I through IV is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*McDonald Jacobs, P.C.*

May 30, 2012

*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, 2011**

	<u>Northwest Health Foundation</u>	<u>Northwest Health Foundation Fund II</u>	<u>Eliminating Entries</u>	<u>Combined Totals</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,863,145	\$ 6,735,282	\$ -	\$ 10,598,427
Investments	46,597,797	14,819,001	-	61,416,798
Grants receivable and other assets	19,119	452,727	(75,000)	396,846
Intercompany receivable	-	410,138	(410,138)	-
Net property and equipment	119,816	-	-	119,816
TOTAL ASSETS	<u>\$ 50,599,877</u>	<u>\$ 22,417,148</u>	<u>\$ (485,138)</u>	<u>\$ 72,531,887</u>
 <b>LIABILITIES AND NET ASSETS</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 170,636	\$ 484,981	\$ -	\$ 655,617
Line of credit	3,000,000	-	-	3,000,000
Grants payable	1,107,615	5,829,597	(75,000)	6,862,212
Intercompany payable	410,138	-	(410,138)	-
Total liabilities	<u>4,688,389</u>	<u>6,314,578</u>	<u>(485,138)</u>	<u>10,517,829</u>
 Net assets:				
Unrestricted	45,911,488	1,197,057	-	47,108,545
Temporarily restricted	-	14,905,513	-	14,905,513
Total net assets	<u>45,911,488</u>	<u>16,102,570</u>	<u>-</u>	<u>62,014,058</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 50,599,877</u>	<u>\$ 22,417,148</u>	<u>\$ (485,138)</u>	<u>\$ 72,531,887</u>

See independent 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, 2011**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
<b>Investment income:</b>				
Interest and dividend income	\$ 319,713	\$ 282,899	\$ -	\$ 602,612
Net realized and unrealized losses	47,791	(388,301)	-	(340,510)
Management fees	(20,661)	(22,587)	-	(43,248)
Net income from real estate LLC	<u>60,074</u>	<u>-</u>	<u>-</u>	<u>60,074</u>
Investment income (loss), net of fees	406,917	(127,989)	-	278,928
Investment expenses:				
Investment administrative expenses	<u>126,665</u>	<u>70,349</u>	<u>-</u>	<u>197,014</u>
Net investment loss	<u>280,252</u>	<u>(198,338)</u>	<u>-</u>	<u>81,914</u>
<b>Other revenue:</b>				
Contributions and grants	-	5,814,992	-	5,814,992
Administrative fees	-	481,221	-	481,221
Contributions and fees for sponsored funds	<u>-</u>	<u>120,642</u>	<u>-</u>	<u>120,642</u>
Total other revenue	<u>-</u>	<u>6,416,855</u>	<u>-</u>	<u>6,416,855</u>
Total revenue, net of investment losses	<u>280,252</u>	<u>6,218,517</u>	<u>-</u>	<u>6,498,769</u>
<b>Expenses:</b>				
Program expenses:				
Health care reform	885,767	-	-	885,767
Health care workforce	167,370	-	-	167,370
Public health	968,833	-	-	968,833
Other grants	106,886	443,808	-	550,694
Kaiser Permanente Community Fund	-	2,213,325	-	2,213,325
Partners Investing in Nursing	-	2,633,773	-	2,633,773
Convergence project	-	1,326	-	1,326
Sponsored programs	-	31,210	-	31,210
Service fees	-	481,019	-	481,019
Program administrative expenses	<u>633,225</u>	<u>425,914</u>	<u>-</u>	<u>1,059,139</u>
Total program expenses	2,762,081	6,230,375	-	8,992,456
Interest expense	66,317	-	-	66,317
General and administrative expenses	<u>446,003</u>	<u>330,836</u>	<u>-</u>	<u>776,839</u>
Total expenses	<u>3,274,401</u>	<u>6,561,211</u>	<u>-</u>	<u>9,835,612</u>
Change in net assets	(2,994,149)	(342,694)	-	(3,336,843)
Net assets - beginning of year	<u>48,905,637</u>	<u>16,445,264</u>	<u>-</u>	<u>65,350,901</u>
Net assets - end of year	<u>\$ 45,911,488</u>	<u>\$ 16,102,570</u>	<u>\$ -</u>	<u>\$ 62,014,058</u>

See independent auditor's report on supplementary information.

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

**SUPPLEMENTARY INFORMATION - SCHEDULE III  
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>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,005,487	\$ 1,880,842	\$ -	\$ 4,886,329
Investments	52,613,415	21,441,780	-	74,055,195
Grants receivable and other assets	19,480	266,877	-	286,357
Intercompany receivable	-	1,473,747	(1,473,747)	-
Net property and equipment	146,079	-	-	146,079
TOTAL ASSETS	<u>\$ 55,784,461</u>	<u>\$ 25,063,246</u>	<u>\$ (1,473,747)</u>	<u>\$ 79,373,960</u>
 <b>LIABILITIES AND NET ASSETS</b>				
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	1,473,747	-	(1,473,747)	-
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	-	14,910,839	-	14,910,839
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 independent auditor's report on supplementary information.



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

**SUPPLEMENTARY INFORMATION - SCHEDULE IV  
COMBINING STATEMENT OF ACTIVITIES  
For the year ended December 31, 2010**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
<b>Investment income:</b>				
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	<u>148,768</u>	<u>71,048</u>	-	<u>219,816</u>
Net investment income	<u>4,006,139</u>	<u>2,109,969</u>	-	<u>6,116,108</u>
<b>Other revenue:</b>				
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
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>
<b>Expenses:</b>				
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 Investing 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	<u>718,946</u>	<u>405,402</u>	-	<u>1,124,348</u>
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>\$ -</u>	<u>\$ 65,350,901</u>

See independent auditor's report on supplementary information.