

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

**Combined
Audited Financial
Statements**

**For the Years Ended
December 31, 2012 and 2011**



McDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

Jake Jacobs, CPA
Shareholder

Susan J. Marks, CPA
Shareholder

Mark A. Clift, CPA
Shareholder

Karin S. Wandtke, CPA
Shareholder

Sang Ahn, CPA
Shareholder

Gerard DeBlois Jr., CPA
Shareholder

Jill Oswald
Shareholder

Mary Strasdin, CPA
Principal

Dennis C. Johnson, CPA
of counsel

To the Board of Directors of
Northwest Health Foundation and
Northwest Health Foundation Fund II

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements Northwest Health Foundation (the Foundation) and Northwest Health Foundation Fund II (Fund II), which comprise the combined statement of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation and Fund II's preparation and fair presentation of the combined financial statements in order to design 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.

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

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Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined 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, 2012 and 2011, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McDonald Jacobz, P.C.

Portland, Oregon
May 22, 2013

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

COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 2,834,741	\$ 10,598,427
Investments (Note 2)	65,265,401	61,416,798
Grants receivable and other assets (Note 4)	179,445	396,846
Net property and equipment (Note 5)	102,786	119,816
 TOTAL ASSETS	 \$ 68,382,373	 \$ 72,531,887
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 385,439	\$ 655,617
Line of credit (Note 6)	3,000,000	3,000,000
Grants payable (Note 7)	5,844,306	6,862,212
Deferred revenue	459,824	-
 Total liabilities	 9,689,569	 10,517,829
Net assets:		
Unrestricted	47,506,925	47,108,545
Temporarily restricted (Note 8)	11,185,879	14,905,513
 Total net assets	 58,692,804	 62,014,058
 TOTAL LIABILITIES AND NET ASSETS	 \$ 68,382,373	 \$ 72,531,887

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, 2012 and 2011**

	2012			2011		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Total	Total		Total	Total
Revenue:						
Investment income:						
Interest and dividend income	\$ 446,444	\$ 164,104	\$ 610,548	\$ 364,343	\$ 238,269	\$ 602,612
Net realized and unrealized gains (losses)	3,613,728	1,015,852	4,629,580	15,123	(355,633)	(340,510)
Management fees	(8,967)	(12,387)	(21,354)	(24,175)	(19,073)	(43,248)
Net income from real estate LLC (Note 3)	62,635	-	62,635	60,074	-	60,074
Investment income, net of fees	4,113,840	1,167,569	5,281,409	415,365	(136,437)	278,928
Investment expenses:						
Investment administrative expenses	148,343	54,898	203,241	122,022	74,992	197,014
Net investment income (loss)	3,965,497	1,112,671	5,078,168	293,343	(211,429)	81,914
Support and other revenue:						
Contributions and grants	80,000	694,207	774,207	-	5,814,992	5,814,992
Administrative fees and other revenue	472,443	-	472,443	481,221	-	481,221
Contributions and fees for sponsored funds	-	2,531	2,531	-	120,642	120,642
Net assets released from restrictions:						
Satisfaction of purpose restrictions	5,529,043	(5,529,043)	-	5,729,531	(5,729,531)	-
Total support and other revenue	6,081,486	(4,832,305)	1,249,181	6,210,752	206,103	6,416,855
Total revenue	10,046,983	(3,719,634)	6,327,349	6,504,095	(5,326)	6,498,769

(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, 2012 and 2011**

	2012			2011		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Total	Total		Total	Total
Expenses:						
Program expenses:						
Health care reform	855,158	-	855,158	857,467	-	857,467
Public health	611,989	-	611,989	914,133	-	914,133
Other grants	654,428	-	654,428	386,815	-	386,815
Kaiser Permanente Community Fund	2,960,519	-	2,960,519	2,213,325	-	2,213,325
Partners Investing in Nursing	756,815	-	756,815	2,633,773	-	2,633,773
Kaiser Endowed Scientist	278,061	-	278,061	181,050	-	181,050
Convergence project	184,792	-	184,792	1,326	-	1,326
CareOregon Releasing Time 2 Care	548,638	-	548,638	121,899	-	121,899
Sponsored programs	95,272	-	95,272	31,210	-	31,210
Service fees	472,443	-	472,443	481,019	-	481,019
Program administrative expenses	1,192,508	-	1,192,508	1,170,439	-	1,170,439
Total program expenses	<u>8,610,623</u>	<u>-</u>	<u>8,610,623</u>	<u>8,992,456</u>	<u>-</u>	<u>8,992,456</u>
Interest expense	57,235	-	57,235	66,317	-	66,317
General and administrative expenses	980,745	-	980,745	776,839	-	776,839
Total expenses	<u>9,648,603</u>	<u>-</u>	<u>9,648,603</u>	<u>9,835,612</u>	<u>-</u>	<u>9,835,612</u>
Change in net assets	398,380	(3,719,634)	(3,321,254)	(3,331,517)	(5,326)	(3,336,843)
Net assets - beginning of year	<u>47,108,545</u>	<u>14,905,513</u>	<u>62,014,058</u>	<u>50,440,062</u>	<u>14,910,839</u>	<u>65,350,901</u>
Net assets - end of year	<u>\$ 47,506,925</u>	<u>\$ 11,185,879</u>	<u>\$ 58,692,804</u>	<u>\$ 47,108,545</u>	<u>\$ 14,905,513</u>	<u>\$ 62,014,058</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, 2012 and 2011**

	2012	2011
Cash flows from investing activities:		
Net investment income	\$ 5,078,168	\$ 81,914
Adjustments to reconcile change in net investment income to net cash provided by investing activities:		
Additions to property and equipment	(35,039)	(20,192)
Realized and unrealized (gain) loss on investments	(4,629,580)	340,510
Investments:		
Net change in short-term investments	4,539,078	(4,727,158)
Purchase of investments	(6,284,240)	(21,041,940)
Proceeds from the sale of investments	2,113,692	38,128,579
Investment in building	412,447	(61,594)
Net cash provided by investing activities	1,194,526	12,700,119
Cash flows from program activities:		
Contributions and other receipts	1,926,406	5,868,873
Grant payments and program funding	(8,436,021)	(10,692,251)
Payments to employees and vendors	(2,448,597)	(2,164,643)
Net cash used in program activities	(8,958,212)	(6,988,021)
Net increase (decrease) in cash	(7,763,686)	5,712,098
Cash and cash equivalents - beginning of year	10,598,427	4,886,329
Cash and cash equivalents - end of year	\$ 2,834,741	\$ 10,598,427

See notes to combined financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011**

**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 2012 and 2011.

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, 2012 and 2011

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 \$500 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 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

Grants and contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Foundation or Fun II is notified of the commitment. 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. Conditional grants are not recorded until all conditions for receiving the grant have been met.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

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

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 2012 and 2011.

The Foundation and Fund II's information and income tax returns for years ended December 31, 2008 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

Use of Estimates

The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year combined financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year combined financial statements.

Subsequent Events

The Foundation and Fund II have evaluated all subsequent events through May 22, 2013, the date the combined financial statements were available to be issued.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

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:

	<u>2012</u>	<u>2011</u>
Cash equivalents	\$ 22,250	\$ 102,910
Marketable securities:		
Fixed income securities	12,498,522	8,976,525
Domestic equities	12,100,146	8,847,425
International equities	<u>7,857,899</u>	<u>6,634,126</u>
Total marketable securities	<u>32,456,567</u>	<u>24,458,076</u>
Alternative investment interests:		
Hedge funds	12,795,941	14,702,880
Private equities	12,747,052	14,547,408
Real estate funds	<u>1,764,717</u>	<u>1,714,285</u>
Total alternative investment interests	<u>27,307,710</u>	<u>30,964,573</u>
Real estate (Note 3)	<u>5,478,874</u>	<u>5,891,239</u>
Total investments	<u>\$ 65,265,401</u>	<u>\$ 61,416,798</u>

Cost basis of investments totaled \$58,330,156 for 2012 and \$57,044,098 for 2011.

Commitments for alternative investment interests not yet funded approximate \$6,680,000 at December 31, 2012.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

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>2012</u>	<u>2011</u>
Assets:		
Cash	\$ 180,192	\$ 572,093
Accounts receivable	54,191	-
Prepaid expenses	38,919	36,504
Land, building and improvements, net of accumulated depreciation of \$1,205,836 and \$958,475 for 2012 and 2011, respectively	<u>5,259,581</u>	<u>5,294,122</u>
Total assets	5,532,883	5,902,719
Liabilities		
Accounts payable and other liabilities	<u>54,009</u>	<u>11,480</u>
Net equity	<u>\$ 5,478,874</u>	<u>\$ 5,891,239</u>
Income:		
Rent, including combined rent from the Foundation and Fund II of \$250,980 and \$226,730 for 2012 and 2011, respectively	\$ 641,101	\$ 615,360
Interest income	<u>1,700</u>	<u>2,089</u>
Total income	642,801	617,449
Operating expenses	<u>580,166</u>	<u>557,375</u>
Net income	<u>\$ 62,635</u>	<u>\$ 60,074</u>
Member distributions during the year	<u>\$ (475,000)</u>	<u>-</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

4. GRANTS RECEIVABLE AND OTHER ASSETS

Grants receivable and other assets consist of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Kaiser Permanente NW	\$ -	\$ 207,022
Tide Foundation	75,000	-
Other grants receivable	50,000	156,054
Accounts receivable and other assets	<u>54,445</u>	<u>33,770</u>
Total grants receivable and other assets	<u>\$ 179,445</u>	<u>\$ 396,846</u>

Grants receivables are unsecured and are expected to be received within one year.

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Office furniture and equipment	\$ 547,810	\$ 512,770
Less: accumulated depreciation	<u>445,024</u>	<u>392,954</u>
Net property and equipment	<u>\$ 102,786</u>	<u>\$ 119,816</u>

Depreciation expense was \$52,069 and \$46,455 for the years ended December 31, 2012 and 2011, 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% (2.11% at December 31, 2012 and 1.54% at December 31, 2011). The line matures in August 2013, 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, 2012 and 2011.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

7. GRANTS PAYABLE

Grants payable represent unconditional promises to give as follows at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Payable within one year	\$ 4,259,056	\$ 4,702,387
Payable within two to three years	<u>1,585,250</u>	<u>2,159,825</u>
Total grants payable	<u>\$ 5,844,306</u>	<u>\$ 6,862,212</u>

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

8. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Kaiser Permanente Community Fund	\$ 7,561,289	\$ 10,142,542
Jennifer Baker Fund	26,927	22,186
Kaiser Permanente Center for Health Research Endowed Scientist Fund	1,159,980	1,324,494
Neighborhood Health Clinics	38,283	36,641
Physical Activity and Healthy Eating	4,238	61,612
CareOregon Hospital Transformation	2,084,923	2,649,736
Investment in Oregon Alliance	15,463	39,900
Jefferson Regional Health Alliance	-	92,944
Partners Investing in Nursing	132,367	162,867
Convergence Project Food Systems Fund	41,208	225,000
National Nurse Funders Collaborative	18,352	48,178
Kellogg Dental Therapy	50,000	-
Other	<u>52,849</u>	<u>99,413</u>
Total temporarily restricted net assets	<u>\$ 11,185,879</u>	<u>\$ 14,905,513</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, 2012 and 2011**

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 2012 and 2011. The contributions to the profit sharing plan totaled \$120,107 and \$120,334 for the years ended December 31, 2012 and 2011, respectively.

10. LEASE COMMITMENTS

The Foundation leases office equipment under operating leases expiring December 2012 and February 2014. Lease expense for each of the years ended December 31, 2012 and 2011 approximated \$10,900.

Future annual rents under the agreement is as follows:

	<u>Lease Expense</u>
December 31, 2013	\$ 7,675
2014	960

In addition to the lease listed above, the Foundation and Fund II lease 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 four years. Minimum future rentals under noncancelable leases are as follows:

	<u>Lease Income</u>
December 31, 2013	\$ 244,100
2014	108,100
2015	16,300

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

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. The Foundation has recorded a liability equal to the amounts due for all participants of \$86,008 and \$69,555 as of December 31, 2012 and 2011, respectively. Total contributions paid to all participants for the years ending December 31, 2012 and 2011 was \$16,033 and \$15,642, respectively. During 2011, 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 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. Fundraising costs totaled approximately \$244,800 and \$168,100 for the years ended December 31, 2012 and 2011, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

14. RELATED PARTY TRANSACTION

During 2012, the Foundation invested \$100,000 in a fund that is managed by an investment company where a board member is the Chief Executive Officer.

15. CONCENTRATION AND CREDIT RISKS

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 (unlimited insurance for certain non-interest bearing accounts through December 31, 2012).

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, 2012, the Foundation's contribution revenues are concentrated with approximately 83% coming from one source (83% from two sources in 2011).

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

16. 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):

	2012	2011
Change in net assets:	\$ (3,321,254)	\$ (3,336,843)
Adjustments to reconcile the change in net assets to net cash used in program activities:		
Net investment activity	(5,078,168)	(81,914)
Depreciation	52,069	46,455
Decrease (Increase) in:		
Other assets	217,401	(110,489)
Increase (decrease) in:		
Accounts payable and other liabilities	(270,178)	(308,803)
Grants payable	(1,017,906)	(2,758,934)
Deferred revenue	459,824	(437,493)
Net cash used in program activities	\$ (8,958,212)	\$ (6,988,021)

Cash paid for interest totaled \$57,235 and \$66,317 for the years ended December 31, 2012 and 2011, respectively.

17. 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, 2012 and 2011**

17. 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, 2012 and 2011 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2012</u>				
Investments - Marketable securities				
Fixed income securities	\$ 12,498,522	\$ 12,498,522	\$ -	\$ -
Domestic equities	12,100,146	12,100,146	-	-
International equities	7,857,899	7,857,899	-	-
Investments - Alternative				
Hedge funds	12,795,941	-	-	12,795,941
Private equities	12,747,052	-	-	12,747,052
Real estate funds	1,764,717	-	-	1,764,717
	<u>\$ 59,764,277</u>	<u>\$ 32,456,567</u>	<u>\$ -</u>	<u>\$ 27,307,710</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>

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 using a market approach. There were no changes in the valuation techniques during the years ended December 31, 2012 and 2011.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2012 and 2011**

17. 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:

	2012	2011
Balance at beginning of year	\$ 30,964,573	\$ 34,228,381
Net capital contributions and distributions	(3,552,719)	(2,645,144)
Realized gains	2,117,124	2,108,294
Unrealized losses	(2,221,268)	(2,726,958)
Balance at end of year	\$ 27,307,710	\$ 30,964,573

Changes in value of investments in limited partnerships is reported in the statements of activities as follows:

	2012	2011
Unrestricted	\$ (295,040)	\$ (565,450)
Temporarily restricted	190,896	(53,214)
Change in value of investments in limited partnerships	\$ (104,144)	\$ (618,664)

SUPPLEMENTARY INFORMATION



McDONALD JACOBS

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

*Jake Jacobs, CPA
Shareholder*

*Susan J. Marks, CPA
Shareholder*

*Mark A. Clift, CPA
Shareholder*

*Karin S. Wandtke, CPA
Shareholder*

*Sang Ahn, CPA
Shareholder*

*Gerard DeBlois Jr., CPA
Shareholder*

*Jill Oswald
Shareholder*

*Mary Strasdin, CPA
Principal*

*Dennis C. Johnson, CPA
of counsel*

To the Board of Directors of
Northwest Health Foundation and
Northwest Health Foundation Fund II

We have audited the combined financial statements of Northwest Health Foundation and Northwest Health Foundation Fund II as of and for the years ended December 31, 2012 and 2011, and our report thereon dated May 22, 2013, which contained an unmodified opinion on those combined financial statements, appears on page 1. Our audits were performed 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 combined 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.

Portland, Oregon
May 22, 2013

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

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

**SUPPLEMENTARY INFORMATION - SCHEDULE I
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2012**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
ASSETS				
Cash and cash equivalents	\$ 1,633,511	\$ 1,201,230	\$ -	\$ 2,834,741
Investments	47,735,848	17,529,553	-	65,265,401
Grants receivable and other assets	15,793	163,652	-	179,445
Intercompany receivable	1,032,771	-	(1,032,771)	-
Net property and equipment	102,786	-	-	102,786
TOTAL ASSETS	\$ 50,520,709	\$ 18,894,435	\$ (1,032,771)	\$ 68,382,373
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 214,199	\$ 171,240	\$ -	\$ 385,439
Line of credit	3,000,000	-	-	3,000,000
Grants payable	698,030	5,146,276	-	5,844,306
Deferred revenue	-	459,824	-	459,824
Intercompany payable	-	1,032,771	(1,032,771)	-
Total liabilities	3,912,229	6,810,111	(1,032,771)	9,689,569
Net assets:				
Unrestricted	46,608,480	898,445	-	47,506,925
Temporarily restricted	-	11,185,879	-	11,185,879
Total net assets	46,608,480	12,084,324	-	58,692,804
TOTAL LIABILITIES AND NET ASSETS	\$ 50,520,709	\$ 18,894,435	\$ (1,032,771)	\$ 68,382,373

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, 2012**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
Investment income:				
Interest and dividend income	\$ 363,367	\$ 247,181	\$ -	\$ 610,548
Net realized and unrealized losses	3,362,011	1,267,569	-	4,629,580
Management fees	(12,251)	(9,103)	-	(21,354)
Net income from real estate LLC	62,635	-	-	62,635
Investment income, net of fees	<u>3,775,762</u>	<u>1,505,647</u>	<u>-</u>	<u>5,281,409</u>
Investment expenses:				
Investment administrative expenses	<u>132,447</u>	<u>70,794</u>	<u>-</u>	<u>203,241</u>
Net investment income	<u>3,643,315</u>	<u>1,434,853</u>	<u>-</u>	<u>5,078,168</u>
Other revenue:				
Contributions and grants	30,000	869,207	(125,000)	774,207
Administrative fees	-	472,443	-	472,443
Contributions and fees for sponsored funds	-	2,531	-	2,531
Total other revenue	<u>30,000</u>	<u>1,344,181</u>	<u>(125,000)</u>	<u>1,249,181</u>
Total revenue	<u>3,673,315</u>	<u>2,779,034</u>	<u>(125,000)</u>	<u>6,327,349</u>
Expenses:				
Program expenses:				
Health care reform	905,158	-	(50,000)	855,158
Public health	611,989	-	-	611,989
Other grants	186,843	467,585	-	654,428
Kaiser Permanente Community Fund	-	2,960,519	-	2,960,519
Partners Investing in Nursing	-	756,815	-	756,815
Kaiser Endowed Scientist	-	278,061	-	278,061
Convergence project	-	259,792	(75,000)	184,792
CareOregon Releasing Time 2 Care	-	548,638	-	548,638
Sponsored programs	-	95,272	-	95,272
Service fees	-	472,443	-	472,443
Program administrative expenses	<u>731,781</u>	<u>460,727</u>	<u>-</u>	<u>1,192,508</u>
Total program expenses	<u>2,435,771</u>	<u>6,299,852</u>	<u>(125,000)</u>	<u>8,610,623</u>
Interest expense	57,235	-	-	57,235
General and administrative expenses	<u>483,317</u>	<u>497,428</u>	<u>-</u>	<u>980,745</u>
Total expenses	<u>2,976,323</u>	<u>6,797,280</u>	<u>(125,000)</u>	<u>9,648,603</u>
Change in net assets	696,992	(4,018,246)	-	(3,321,254)
Net assets - beginning of year	<u>45,911,488</u>	<u>16,102,570</u>	<u>-</u>	<u>62,014,058</u>
Net assets - end of year	<u>\$ 46,608,480</u>	<u>\$ 12,084,324</u>	<u>\$ -</u>	<u>\$ 58,692,804</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, 2011**

	<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	\$ 3,863,145	\$ 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	<u>119,816</u>	<u>-</u>	<u>-</u>	<u>119,816</u>
TOTAL ASSETS	<u>\$ 50,599,877</u>	<u>\$ 22,417,148</u>	<u>\$ (485,138)</u>	<u>\$ 72,531,887</u>
LIABILITIES AND NET ASSETS				
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	<u>410,138</u>	<u>-</u>	<u>(410,138)</u>	<u>-</u>
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	<u>-</u>	<u>14,905,513</u>	<u>-</u>	<u>14,905,513</u>
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 IV
COMBINING STATEMENT OF ACTIVITIES
For the year ended December 31, 2011**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
Investment income:				
Interest and dividend income	\$ 319,713	\$ 282,899	\$ -	\$ 602,612
Net realized and unrealized gains (losses)	47,791	(388,301)	-	(340,510)
Management fees	(20,661)	(22,587)	-	(43,248)
Net income from real estate LLC	60,074	-	-	60,074
Investment income, net of fees	<u>406,917</u>	<u>(127,989)</u>	-	<u>278,928</u>
Investment expenses:				
Investment administrative expenses	126,665	70,349	-	197,014
Net investment income (loss)	<u>280,252</u>	<u>(198,338)</u>	-	<u>81,914</u>
Other revenue:				
Contributions and grants	-	5,814,992	-	5,814,992
Administrative fees	-	481,221	-	481,221
Contributions and fees for sponsored funds	-	120,642	-	120,642
Total other revenue	<u>-</u>	<u>6,416,855</u>	-	<u>6,416,855</u>
Total revenue, net of investment losses	<u>280,252</u>	<u>6,218,517</u>	-	<u>6,498,769</u>
Expenses:				
Program expenses:				
Health care reform	857,467	-	-	857,467
Public health	914,133	-	-	914,133
Other grants	245,956	140,859	-	386,815
Kaiser Permanente Community Fund	-	2,213,325	-	2,213,325
Partners Investing in Nursing	-	2,633,773	-	2,633,773
Kaiser Endowed Scientist	-	181,050	-	181,050
Convergence project	-	1,326	-	1,326
CareOregon Releasing Time 2 Care	-	121,899	-	121,899
Sponsored programs	-	31,210	-	31,210
Service fees	-	481,019	-	481,019
Program administrative expenses	744,525	425,914	-	1,170,439
Total program expenses	<u>2,762,081</u>	<u>6,230,375</u>	-	<u>8,992,456</u>
Interest expense	66,317	-	-	66,317
General and administrative expenses	446,003	330,836	-	776,839
Total expenses	<u>3,274,401</u>	<u>6,561,211</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>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.