

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

**Combined
Audited Financial
Statements**

**For the Years Ended
December 31, 2013 and 2012**



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

Mary Strasdin, CPA
Shareholder

Jill Oswald
Shareholder

Anthony Almer, CPA
Principal

Tyee Carr, 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, 2013 and 2012, and the related combined statements of activities and cash flows for the years 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

Strength in Numbers

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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, 2013 and 2012, 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
June 5, 2014

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

COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 4,999,051	\$ 2,834,741
Investments (Note 2)	63,072,667	65,265,401
Grants receivable and other assets (Note 4)	168,081	179,445
Net property and equipment (Note 5)	<u>51,478</u>	<u>102,786</u>
 TOTAL ASSETS	 <u>\$ 68,291,277</u>	 <u>\$ 68,382,373</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 356,082	\$ 385,439
Line of credit (Note 6)	1,500,000	3,000,000
Grants payable (Note 7)	4,484,355	5,844,306
Deferred revenue	<u>387,628</u>	<u>459,824</u>
 Total liabilities	 <u>6,728,065</u>	 <u>9,689,569</u>
Net assets:		
Unrestricted	51,361,304	47,506,925
Temporarily restricted (Note 8)	<u>10,201,908</u>	<u>11,185,879</u>
 Total net assets	 <u>61,563,212</u>	 <u>58,692,804</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 68,291,277</u>	 <u>\$ 68,382,373</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, 2013 and 2012**

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue:						
Investment income:						
Interest and dividend income	\$ 303,644	\$ 147,214	\$ 450,858	\$ 446,444	\$ 164,104	\$ 610,548
Net realized and unrealized gains	6,276,528	1,435,541	7,712,069	3,613,728	1,015,852	4,629,580
Management fees	(16,269)	(6,391)	(22,660)	(8,967)	(12,387)	(21,354)
Net income from real estate LLC (Note 3)	46,039	-	46,039	62,635	-	62,635
Investment income, net of fees	6,609,942	1,576,364	8,186,306	4,113,840	1,167,569	5,281,409
Investment expenses:						
Investment administrative expenses	202,269	48,748	251,017	148,343	54,898	203,241
Net investment income	6,407,673	1,527,616	7,935,289	3,965,497	1,112,671	5,078,168
Support and other revenue:						
Contributions and grants	-	1,562,637	1,562,637	80,000	694,207	774,207
Administrative fees and other revenue	480,194	-	480,194	472,443	-	472,443
Contributions and fees for sponsored funds	-	-	-	-	2,531	2,531
Net assets released from restrictions:						
Satisfaction of purpose restrictions	4,074,224	(4,074,224)	-	5,529,043	(5,529,043)	-
Total support and other revenue	4,554,418	(2,511,587)	2,042,831	6,081,486	(4,832,305)	1,249,181
Total revenue	10,962,091	(983,971)	9,978,120	10,046,983	(3,719,634)	6,327,349

(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, 2013 and 2012**

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Expenses:						
Program expenses:						
Health care reform	307,305	-	307,305	855,158	-	855,158
Public health	-	-	-	611,989	-	611,989
Technical assistance/Sponsorship	100,250	-	100,250	-	-	-
Other grants	541,883	-	541,883	654,428	-	654,428
Kaiser Permanente Community Fund	2,514,056	-	2,514,056	2,960,519	-	2,960,519
Partners Investing in Nursing	792,597	-	792,597	756,815	-	756,815
CareOregon Releasing Time 2 Care	109,689	-	109,689	548,638	-	548,638
Fluoride Campaign	565,846	-	565,846	-	-	-
Kaiser Endowed Scientist	-	-	-	278,061	-	278,061
Convergence project	-	-	-	184,792	-	184,792
Sponsored programs	-	-	-	95,272	-	95,272
Service fees	480,194	-	480,194	472,443	-	472,443
Program administrative expenses	984,183	-	984,183	1,192,508	-	1,192,508
Total program expenses	6,396,003	-	6,396,003	8,610,623	-	8,610,623
Interest expense	38,402	-	38,402	57,235	-	57,235
General and administrative expenses	673,307	-	673,307	980,745	-	980,745
Total expenses	7,107,712	-	7,107,712	9,648,603	-	9,648,603
Change in net assets	3,854,379	(983,971)	2,870,408	398,380	(3,719,634)	(3,321,254)
Net assets - beginning of year	47,506,925	11,185,879	58,692,804	47,108,545	14,905,513	62,014,058
Net assets - end of year	<u>\$ 51,361,304</u>	<u>\$ 10,201,908</u>	<u>\$ 61,563,212</u>	<u>\$ 47,506,925</u>	<u>\$ 11,185,879</u>	<u>\$ 58,692,804</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, 2013 and 2012**

	2013	2012
Cash flows from investing activities:		
Net investment income	\$ 7,935,289	\$ 5,078,168
Adjustments to reconcile change in net investment income to net cash provided by investing activities:		
Additions to property and equipment	(910)	(35,039)
Realized and unrealized gain on investments	(7,712,069)	(4,629,580)
Investments:		
Net change in short-term investments	(706,946)	4,539,078
Purchase of investments	(4,622,327)	(6,284,240)
Proceeds from the sale of investments	15,005,197	2,113,692
Investment in building	228,879	412,447
	<u>10,127,113</u>	<u>1,194,526</u>
Net cash provided by investing activities		
Cash flows from program activities (Note 15):		
Contributions and other receipts	1,981,999	1,926,406
Grant payments and program funding	(6,771,771)	(8,436,021)
Payments to employees and vendors	(1,673,031)	(2,448,597)
	<u>(6,462,803)</u>	<u>(8,958,212)</u>
Net cash used in program activities		
Cash flows from financing activities:		
Payment on line of credit	(1,500,000)	-
	<u>(1,500,000)</u>	<u>-</u>
Net cash used in financing activities		
Net increase (decrease) in cash	2,164,310	(7,763,686)
Cash and cash equivalents - beginning of year	2,834,741	10,598,427
	<u>2,834,741</u>	<u>10,598,427</u>
Cash and cash equivalents - end of year	<u>\$ 4,999,051</u>	<u>\$ 2,834,741</u>

See notes to combined financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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 2013 and 2012.

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, 2013 and 2012

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.

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.

Contributions

Grants and contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Foundation or Fund 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, 2013 and 2012

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

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 2013 and 2012.

The Organization follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

The Foundation and Fund II's information and income tax returns for years ended December 31, 2009 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.

Subsequent Events

The Foundation and Fund II have evaluated all subsequent events through June 5, 2014, 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, 2013 and 2012**

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, except the investment in real estate which is carried at the equity basis:

	<u>2013</u>	<u>2012</u>
Cash equivalents	\$ 89,511	\$ 22,250
Marketable securities:		
Fixed income securities	9,073,920	12,498,522
Domestic equities	12,239,649	12,100,146
International equities	<u>8,827,080</u>	<u>7,857,899</u>
Total marketable securities	<u>30,140,649</u>	<u>32,456,567</u>
Alternative investment interests:		
Hedge funds	13,360,901	12,795,941
Private equities	11,856,657	12,747,052
Real estate funds	<u>2,375,036</u>	<u>1,764,717</u>
Total alternative investment interests	<u>27,592,594</u>	<u>27,307,710</u>
Real estate (Note 3)	<u>5,249,913</u>	<u>5,478,874</u>
Total investments	<u>\$ 63,072,667</u>	<u>\$ 65,265,401</u>

Cost basis of investments totaled \$51,900,729 for 2013 and \$58,330,156 for 2012.

Commitments for alternative investment interests not yet funded approximate \$6,860,000 at December 31, 2013.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2013 and 2012**

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 at the equity basis. 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>2013</u>	<u>2012</u>
Assets:		
Cash	\$ 96,725	\$ 180,192
Accounts receivable	1,551	54,191
Prepaid expenses	40,214	38,919
Land, building and improvements, net of accumulated depreciation of \$1,458,511 and \$1,205,836 for 2013 and 2012, respectively	<u>5,134,044</u>	<u>5,259,581</u>
Total assets	5,272,534	5,532,883
Liabilities:		
Accounts payable and other liabilities	<u>22,621</u>	<u>54,009</u>
Net equity	<u>\$ 5,249,913</u>	<u>\$ 5,478,874</u>
Income:		
Rent, including combined rent from the Foundation and Fund II of \$248,930 and \$250,980 for 2013 and 2012, respectively	\$ 651,787	\$ 641,101
Interest income	<u>984</u>	<u>1,700</u>
Total income	652,771	642,801
Operating expenses	<u>606,732</u>	<u>580,166</u>
Net income	<u>\$ 46,039</u>	<u>\$ 62,635</u>
Member distributions during the year	<u>\$ (275,000)</u>	<u>\$ (475,000)</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2013 and 2012**

4. GRANTS RECEIVABLE AND OTHER ASSETS

Grants receivable and other assets consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Kaiser Permanente NW	\$ 73,849	\$ -
Tide Foundation	-	75,000
Other grants receivable	67,393	50,000
Accounts receivable and other assets	<u>26,839</u>	<u>54,445</u>
Total grants receivable and other assets	<u>\$ 168,081</u>	<u>\$ 179,445</u>

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

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Office furniture and equipment	\$ 548,369	\$ 547,810
Less: accumulated depreciation	<u>496,891</u>	<u>445,024</u>
Net property and equipment	<u>\$ 51,478</u>	<u>\$ 102,786</u>

Depreciation expense was \$52,218 and \$52,069 for the years ended December 31, 2013 and 2012, 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% (1.38% at December 31, 2013 and 2.11% at December 31, 2012). The line matures in August 2014, is secured by investments and is subject to certain non-financial covenants. Outstanding advances on the line of credit totaled \$1,500,000 and \$3,000,000 at December 31, 2013 and 2012, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2013 and 2012**

7. GRANTS PAYABLE

Grants payable represent unconditional promises to give as follows at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Payable within one year	\$ 2,946,667	\$ 4,259,056
Payable within two to three years	<u>1,537,688</u>	<u>1,585,250</u>
Total grants payable	<u>\$ 4,484,355</u>	<u>\$ 5,844,306</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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Kaiser Permanente Community Fund	\$ 6,438,107	\$ 7,561,289
Jennifer Baker Fund	31,577	26,927
Kaiser Permanente Center for Health Research Endowed Scientist Fund	1,357,517	1,159,980
Neighborhood Health Clinics	41,204	38,283
Physical Activity and Healthy Eating	1,841	4,238
CareOregon Hospital Transformation	1,971,356	2,084,923
Investment in Oregon Alliance	39,594	15,463
Partners Investing in Nursing	159,660	132,367
Convergence Project Food Systems Fund	34,092	41,208
National Nurse Funders Collaborative	15,910	18,352
Kellogg Dental Therapy	40,572	50,000
Clark County Community Choices	37,356	-
Other	<u>33,122</u>	<u>52,849</u>
Total temporarily restricted net assets	<u>\$ 10,201,908</u>	<u>\$ 11,185,879</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, 2013 and 2012**

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 2013 and 2012. The contributions to the profit sharing plan totaled \$100,801 and \$120,107 for the years ended December 31, 2013 and 2012, respectively.

10. LEASE COMMITMENTS

The Foundation leased office equipment under an operating lease through February 2014. Lease expense for each of the years ended December 31, 2013 and 2012 approximated \$7,700 and \$10,900, respectively. Future annual rents totaling \$960 under the agreement are due in 2014.

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, 2014	\$ 241,100
2015	211,900
2016	170,400
2017	138,600
2018	34,700

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2013 and 2012**

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 \$85,097 and \$86,008 as of December 31, 2013 and 2012, respectively. No contributions were made to the plan for the year ending December 31, 2013. Total contributions paid to all participants for the year ending December 31, 2012 was \$16,033. Subsequent to December 31, 2013, the entire balance of the plan was paid out as distributions to the participating employee.

12. 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 \$60,600 and \$244,800 for the years ended December 31, 2013 and 2012, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2013 and 2012**

13. 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. As of December 31, 2013 the remaining investment balances through this investment company totaled \$22,045.

14. 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). Balances in excess of insured limits were approximately \$412,500 as of December 31, 2013. Balances as of December 31, 2012 were fully insured.

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.

The Foundation's contribution revenues for 2013 are concentrated with approximately 53% coming from one source (83% from one source in 2012).

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2013 and 2012**

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):

	2013	2012
Change in net assets	\$ 2,870,408	\$ (3,321,254)
Adjustments to reconcile the change in net assets to net cash used in program activities:		
Net investment activity	(7,935,289)	(5,078,168)
Depreciation	52,218	52,069
Decrease (increase) in:		
Other assets	11,364	217,401
Increase (decrease) in:		
Accounts payable and other liabilities	(29,357)	(270,178)
Grants payable	(72,196)	(1,017,906)
Deferred revenue	(1,359,951)	459,824
Net cash used in program activities	\$ (6,462,803)	\$ (8,958,212)

Cash paid for interest totaled \$38,402 and \$57,235 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012**

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, 2013 and 2012 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2013</u>				
Investments - Marketable securities:				
Fixed income securities	\$ 9,073,920	\$ 9,073,920	\$ -	\$ -
Domestic equities	12,239,649	12,239,649	-	-
International equities	8,827,080	8,827,080	-	-
Investments - Alternative :				
Hedge funds	13,360,901	-	-	13,360,901
Private equities	11,856,657	-	-	11,856,657
Real estate funds	2,375,036	-	-	2,375,036
	<u>\$ 57,733,243</u>	<u>\$ 30,140,649</u>	<u>\$ -</u>	<u>\$ 27,592,594</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>

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, 2013 and 2012.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2013 and 2012**

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:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 27,307,710	\$ 30,964,573
Net capital contributions and distributions	(3,166,356)	(3,552,719)
Realized gains	1,395,186	2,117,124
Unrealized gains (losses)	<u>2,056,054</u>	<u>(2,221,268)</u>
Balance at end of year	<u>\$ 27,592,594</u>	<u>\$ 27,307,710</u>

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

	<u>2013</u>	<u>2012</u>
Unrestricted	\$ 3,135,704	\$ (295,040)
Temporarily restricted	<u>315,536</u>	<u>190,896</u>
Change in value of investments in limited partnerships	<u>\$ 3,451,240</u>	<u>\$ (104,144)</u>

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*

*Mary Strasdin, CPA
Shareholder*

*Jill Oswald
Shareholder*

*Anthony Almer, CPA
Principal*

*Tyee Carr, 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, 2013 and 2012, and our report thereon dated June 5, 2014, 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
June 5, 2014

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, 2013**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
ASSETS				
Cash and cash equivalents	\$ 2,116,357	\$ 2,882,694	\$ -	\$ 4,999,051
Investments	46,215,750	16,856,917	-	63,072,667
Grants receivable and other assets	18,571	149,510	-	168,081
Intercompany receivable	3,305,887	-	(3,305,887)	-
Net property and equipment	<u>51,478</u>	<u>-</u>	<u>-</u>	<u>51,478</u>
TOTAL ASSETS	<u>\$ 51,708,043</u>	<u>\$ 19,889,121</u>	<u>\$ (3,305,887)</u>	<u>\$ 68,291,277</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 197,497	\$ 158,585	\$ -	\$ 356,082
Line of credit	1,500,000	-	-	1,500,000
Grants payable	214,700	4,269,655	-	4,484,355
Deferred revenue	-	387,628	-	387,628
Intercompany payable	<u>-</u>	<u>3,305,887</u>	<u>(3,305,887)</u>	<u>-</u>
Total liabilities	<u>1,912,197</u>	<u>8,121,755</u>	<u>(3,305,887)</u>	<u>6,728,065</u>
Net assets:				
Unrestricted	49,795,846	1,565,458	-	51,361,304
Temporarily restricted	<u>-</u>	<u>10,201,908</u>	<u>-</u>	<u>10,201,908</u>
Total net assets	<u>49,795,846</u>	<u>11,767,366</u>	<u>-</u>	<u>61,563,212</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 51,708,043</u>	<u>\$ 19,889,121</u>	<u>\$ (3,305,887)</u>	<u>\$ 68,291,277</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, 2013**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
Investment income:				
Interest and dividend income	\$ 245,902	\$ 204,956	\$ -	\$ 450,858
Net realized and unrealized gains	5,484,442	2,227,627	-	7,712,069
Management fees	(12,386)	(10,274)	-	(22,660)
Net income from real estate LLC	46,039	-	-	46,039
Investment income, net of fees	<u>5,763,997</u>	<u>2,422,309</u>	-	<u>8,186,306</u>
Investment expenses:				
Investment administrative expenses	176,109	74,908	-	251,017
Net investment income	<u>5,587,888</u>	<u>2,347,401</u>	-	<u>7,935,289</u>
Other revenue:				
Contributions and grants	-	1,562,637	-	1,562,637
Administrative fees	-	480,194	-	480,194
Total other revenue	<u>-</u>	<u>2,042,831</u>	-	<u>2,042,831</u>
Total revenue	<u>5,587,888</u>	<u>4,390,232</u>	-	<u>9,978,120</u>
Expenses:				
Program expenses:				
Health care reform	307,305	-	-	307,305
Technical assistance/Sponsorship	100,250	-	-	100,250
Other grants	351,280	190,603	-	541,883
Kaiser Permanente Community Fund	-	2,514,056	-	2,514,056
Partners Investing in Nursing	-	792,597	-	792,597
CareOregon Releasing Time 2 Care	-	109,689	-	109,689
Fluoride Campaign	565,846	-	-	565,846
Service fees	-	480,194	-	480,194
Program administrative expenses	569,926	414,257	-	984,183
Total program expenses	<u>1,894,607</u>	<u>4,501,396</u>	-	<u>6,396,003</u>
Interest expense	38,402	-	-	38,402
General and administrative expenses	467,513	205,794	-	673,307
Total expenses	<u>2,400,522</u>	<u>4,707,190</u>	-	<u>7,107,712</u>
Change in net assets	3,187,366	(316,958)	-	2,870,408
Net assets - beginning of year	<u>46,608,480</u>	<u>12,084,324</u>	-	<u>58,692,804</u>
Net assets - end of year	<u>\$ 49,795,846</u>	<u>\$ 11,767,366</u>	<u>\$ -</u>	<u>\$ 61,563,212</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, 2012

	<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	\$ 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	<u>102,786</u>	<u>-</u>	<u>-</u>	<u>102,786</u>
TOTAL ASSETS	<u>\$ 50,520,709</u>	<u>\$ 18,894,435</u>	<u>\$ (1,032,771)</u>	<u>\$ 68,382,373</u>
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	<u>-</u>	<u>1,032,771</u>	<u>(1,032,771)</u>	<u>-</u>
Total liabilities	<u>3,912,229</u>	<u>6,810,111</u>	<u>(1,032,771)</u>	<u>9,689,569</u>
Net assets:				
Unrestricted	46,608,480	898,445	-	47,506,925
Temporarily restricted	<u>-</u>	<u>11,185,879</u>	<u>-</u>	<u>11,185,879</u>
Total net assets	<u>46,608,480</u>	<u>12,084,324</u>	<u>-</u>	<u>58,692,804</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 50,520,709</u>	<u>\$ 18,894,435</u>	<u>\$ (1,032,771)</u>	<u>\$ 68,382,373</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, 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 gains	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	3,775,762	1,505,647	-	5,281,409
Investment expenses:				
Investment administrative expenses	132,447	70,794	-	203,241
Net investment income	3,643,315	1,434,853	-	5,078,168
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	30,000	1,344,181	(125,000)	1,249,181
Total revenue, net of investment losses	3,673,315	2,779,034	(125,000)	6,327,349
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
CareOregon Releasing Time 2 Care	-	548,638	-	548,638
Kaiser Endowed Scientist	-	278,061	-	278,061
Convergence project	-	259,792	(75,000)	184,792
Sponsored programs	-	95,272	-	95,272
Service fees	-	472,443	-	472,443
Program administrative expenses	731,781	460,727	-	1,192,508
Total program expenses	2,435,771	6,299,852	(125,000)	8,610,623
Interest expense	57,235	-	-	57,235
General and administrative expenses	483,317	497,428	-	980,745
Total expenses	2,976,323	6,797,280	(125,000)	9,648,603
Change in net assets	696,992	(4,018,246)	-	(3,321,254)
Net assets - beginning of year	45,911,488	16,102,570	-	62,014,058
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.