

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

**Combined
Audited Financial
Statements**

**For the Years Ended
December 31, 2009 and 2008**



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, 2009 and 2008, 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, 2009 and 2008, 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 24, 2010

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

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

COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 3,015,791	\$ 4,751,660
Investments (Note 2)	77,628,346	71,880,324
Prepaid expenses and other assets	42,308	181,755
Net property and equipment (Note 4)	193,562	213,585
 TOTAL ASSETS	 \$ 80,880,007	 \$ 77,027,324
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,053,526	\$ 548,528
Line of credit (Note 5)	3,000,000	2,650,000
Grants payable (Note 6)	9,541,452	10,363,178
Deferred contract fees	426,641	-
 Total liabilities	 14,021,619	 13,561,706
Net assets:		
Unrestricted	49,681,183	46,195,340
Temporarily restricted (Note 7)	17,177,205	17,270,278
 Total net assets	 66,858,388	 63,465,618
 TOTAL LIABILITIES AND NET ASSETS	 \$ 80,880,007	 \$ 77,027,324

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, 2009 and 2008**

	2009		2008	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Revenue:				
Investment income:				
Interest and dividend income	\$ 950,711	\$ 110,740	\$ 1,117,060	\$ 281,629
Net realized and unrealized gains (losses)	6,839,281	2,961,680	(18,477,895)	(6,006,080)
Management fees	(71,944)	(27,025)	(105,932)	(39,682)
Net income (loss) from real estate LLC (Note 3)	(5,377)	-	56,281	-
Investment income, net of fees	<u>7,712,671</u>	<u>3,045,395</u>	<u>(17,410,486)</u>	<u>(5,764,133)</u>
Investment expenses:				
Investment administrative expenses	<u>166,437</u>	<u>59,829</u>	<u>168,445</u>	<u>72,739</u>
Net investment income (loss)	<u>7,546,234</u>	<u>2,985,566</u>	<u>(17,578,931)</u>	<u>(5,836,872)</u>
Support and other revenue:				
Contributions and grants	13,910	3,506,201	-	3,782,706
Administrative fees and other revenue	434,029	-	660,866	-
Contributions and fees for sponsored funds	-	323,518	-	446,321
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>6,908,358</u>	<u>(6,908,358)</u>	<u>7,539,318</u>	<u>(7,539,318)</u>
Total support and other revenue	<u>7,356,297</u>	<u>(3,078,639)</u>	<u>8,200,184</u>	<u>(3,310,291)</u>
Total revenue	<u>14,902,531</u>	<u>(93,073)</u>	<u>(9,378,747)</u>	<u>(9,147,163)</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, 2009 and 2008**

	2009			2008			
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted		Total
		Total	Total		Total	Total	
Expenses:							
Program expenses:							
Access to healthcare	888,918	-	888,918	833,222	-	833,222	
Nursing workforce shortage	233,941	-	233,941	219,007	-	219,007	
Public health	1,370,837	-	1,370,837	1,345,711	-	1,345,711	
Other grants	465,529	-	465,529	1,114,282	-	1,114,282	
Kaiser Permanente grants	3,138,854	-	3,138,854	3,039,579	-	3,039,579	
Partners in nursing	2,320,661	-	2,320,661	2,471,510	-	2,471,510	
Service fees	425,629	-	425,629	374,611	-	374,611	
Program administrative expenses	1,860,532	-	1,860,532	2,287,551	-	2,287,551	
Total program expenses	10,704,901	-	10,704,901	11,685,473	-	11,685,473	
Interest expense	71,952	-	71,952	84,014	-	84,014	
General and administrative expenses	639,835	-	639,835	606,726	-	606,726	
Total expenses	<u>11,416,688</u>	<u>-</u>	<u>11,416,688</u>	<u>12,376,213</u>	<u>-</u>	<u>12,376,213</u>	
Change in net assets	3,485,843	(93,073)	3,392,770	(21,754,960)	(9,147,163)	(30,902,123)	
Net assets - beginning of year	<u>46,195,340</u>	<u>17,270,278</u>	<u>63,465,618</u>	<u>67,950,300</u>	<u>26,417,441</u>	<u>94,367,741</u>	
Net assets - end of year	<u>\$ 49,681,183</u>	<u>\$ 17,177,205</u>	<u>\$ 66,858,388</u>	<u>\$ 46,195,340</u>	<u>\$ 17,270,278</u>	<u>\$ 63,465,618</u>	

(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, 2009 and 2008**

	2009	2008
Cash flows from investing activities:		
Net investment income (loss)	\$ 10,531,800	\$ (23,415,803)
Adjustments to reconcile change in net investment income (loss) to net cash provided by investing activities:		
Additions to furnishings and equipment	(29,674)	(9,030)
Realized and unrealized (gain) loss on investments	(9,800,961)	24,483,975
Investments:		
Net change in short-term investments	1,586,195	(2,150,616)
Purchase of investments	(7,081,971)	(9,022,690)
Proceeds from the sale of investments	10,093,338	16,803,687
Investment in building	(544,623)	(4,305,948)
Net cash provided by investing activities	4,754,104	2,383,575
Cash flows from program activities:		
Contributions and other receipts	4,704,299	4,413,381
Grant payments and program funding	(8,562,584)	(6,202,265)
Payments to employees and vendors	(2,981,688)	(3,787,575)
Net cash used in program activities	(6,839,973)	(5,576,459)
Cash flows from financing activities:		
Net proceeds from line of credit	350,000	2,650,000
Net cash provided by financing activities	350,000	2,650,000
Net increase (decrease) in cash	(1,735,869)	(542,884)
Cash and cash equivalents - beginning of year	4,751,660	5,294,544
Cash and cash equivalents - end of year	\$ 3,015,791	\$ 4,751,660

See notes to combined financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

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 receive contributions 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 foundations 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 2009 and 2008.

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, 2009 and 2008

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.

Prepaid Expenses and Other Assets

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

Grants and Grants Payable

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

Contributions

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

**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. At December 31, 2009, Fund II had a conditional grant for \$200,000. Subsequent to year-end all conditions were met and the grant was recorded as revenue in 2010.

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.

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. Fund II was a private foundation and was subject to federal excise tax of 2% (reduced to 1% if certain requirements were met) on net investment income. Effective January 1, 2006, Fund II received a conditional determination that it is reclassified as a public charity, subject to meeting public support requirements. If Fund II was unable to meet the public support requirements to be reclassified as a public charity, deferred excise taxes would be payable. Management estimates the contingent excise taxes to be immaterial to the financial statements and have not been accrued.

Some income received from investments in pass-through entities, resulting from activities considered not substantially related to the Foundation or Fund II's tax-exempt purpose, may be subject to reporting as unrelated business income. Taxes resulting from unrelated business income were insignificant to the financial statements for 2009 and 2008.

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, 2009 and 2008**

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

Reclassifications

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

Subsequent Events

The Foundation and Fund II have evaluated all subsequent events through May 24, 2010, 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:

	2009	2008
Cash equivalents	\$ 474,829	\$ 765,622
Marketable securities:		
Fixed income securities	11,106,876	5,605,646
Domestic equities	17,812,341	20,014,647
International equities	10,895,863	8,992,017
Total marketable securities	39,815,080	34,612,310
Alternative investment interests:		
Hedge funds	17,660,681	19,744,807
Private equities	12,309,518	10,201,779
Real estate funds	1,569,549	1,301,740
Total alternative investment interests	31,539,748	31,248,326
Real estate (Note 3)	5,798,689	5,254,066
Total investments	\$ 77,628,346	\$ 71,880,324

Cost basis of investments totaled \$74,033,234 for 2009 and \$79,543,238 for 2008.

Commitments for alternative investment interests not yet funded approximate \$5,241,000 at December 31, 2009.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

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>2009</u>	<u>2008</u>
Assets:		
Cash	\$ 42,622	\$ 100,561
Accounts receivable	44,818	4,361
Prepaid expenses	34,175	35,484
Land, building and improvements, net of accumulated depreciation of \$468,178 and \$247,776, respectively	<u>5,719,797</u>	<u>5,212,859</u>
Total assets	<u>5,841,412</u>	<u>5,353,265</u>
Liabilities		
Accounts payable and other liabilities	<u>42,723</u>	<u>99,199</u>
Net equity	<u>\$ 5,798,689</u>	<u>\$ 5,254,066</u>
Income:		
Rent, including rent from the Foundation and Fund II of \$182,097	\$ 566,871	\$ 477,546
Interest income	<u>1,598</u>	<u>4,081</u>
Total income	568,469	481,627
Operating expenses	<u>573,846</u>	<u>425,346</u>
Change in net assets	<u>\$ (5,377)</u>	<u>\$ 56,281</u>
Member contributions during the year	<u>\$ 550,000</u>	<u>\$ 4,193,386</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Office furniture and equipment	\$ 491,717	\$ 462,043
Less accumulated depreciation	<u>298,155</u>	<u>248,458</u>
Net property and equipment	<u>\$ 193,562</u>	<u>\$ 213,585</u>

Depreciation expense was \$49,697 and \$51,387 for the years ended December 31, 2009 and 2008, respectively.

5. 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% (1.48% at December 31, 2009 and 2.04% at December 31, 2008). The line matures on August 5, 2010, is secured by investments and is subject to certain financial covenants. Outstanding advances on the line of credit totaled \$3,000,000 and \$2,650,000 at December 31, 2009 and 2008, respectfully. Interest expenses on the line of credit totaled \$71,492 and \$84,014 for the years ended December 31, 2009 and 2008, respectively.

6. GRANTS PAYABLE

Grants payable represent unconditional promises to give as follows:

	<u>2009</u>	<u>2008</u>
Due within one year	\$ 6,529,493	\$ 6,923,719
Due within two to three years	<u>3,011,959</u>	<u>3,439,459</u>
Total grants payable	<u>\$ 9,541,452</u>	<u>\$ 10,363,178</u>

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

7. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2009 and 2008 are as follows:

	2009	2008
Neighborhood Health Clinics	\$ 171,970	\$ 150,121
Kaiser Permanente Community Fund	14,724,864	15,406,939
Kaiser Permanente Center for Health Research Endowed Scientist Fund	1,408,669	1,213,765
Convergence Project	264,012	-
Robert Wood Johnson programs	168,076	139,344
Physical Activity and Healthy Eating	125,979	211,605
Learn and Lead for Hospital Transformation	100,974	-
Oregon Health IT Exchange Project	62,489	-
Jennifer Baker Fund	16,009	11,483
Administration Fund	13,701	8,175
Oregon Simulation Alliance	57,778	67,721
Jefferson Regional Health Alliance	18,965	16,082
Oregon Health Care Workforce Institute	30,662	37,501
Louise Shores Scholarship Fund	5,292	-
Voices: Loud and Clear	7,765	7,542
Total temporarily restricted net assets	\$ 17,177,205	\$ 17,270,278

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, 2009 and 2008**

8. RETIREMENT PLAN

The Foundation has a defined contribution 401(k) profit sharing plan which covers employees who meet certain eligibility requirements. Employees make voluntary contributions to the plan. Annually, the board of directors approves a contribution to the plan. The contribution rate approved by the board was 14% for 2009 and 2008. The contributions to the profit sharing plan totaled \$155,430 and \$172,201 for the years ended December 31, 2009 and 2008, respectively.

9. LEASE COMMITMENTS

The Foundation leases a photocopier and a printer under an operating lease agreement ending February 2014. Minimum monthly payments are \$640.

Lease expense for the years ended December 31, 2009 and 2008 approximated \$14,500 and \$30,000, respectively.

Future annual rentals under the agreements are as follows:

	Lease Expense
December 31, 2010	\$ 7,675
2011	7,675
2012	7,675
2013	7,675
2014	960

In addition to the leases 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). Prior to purchasing the building, the Foundation and Fund II leased office space in the same building. Monthly rent was \$11,080 through February 2008.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

9. LEASE COMMITMENTS, Continued

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, 2010	\$ 164,900
2011	21,700
2012	16,900
2013	2,800

10. DEFERRED COMPENSATION PLAN

The Foundation has a deferred compensation plan for selected employees. The Foundation's board annually approves discretionary contributions to the plan. Employees may select to allocate their accounts to investments owned by the Foundation and individual accounts reflect gains and losses based on the performance of the investments selected. The plan is unfunded. The Foundation has recorded a liability equal to the amounts due for all participants of \$453,688 and \$348,339 as of December 31, 2009 and 2008, respectively.

11. REQUIRED DISTRIBUTION

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

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. Insignificant expenses incurred for fundraising are included in general and administrative expenses. The nature of the activities in obtaining contributions received by Fund II are driven by the donors who have sought out Fund II as an organization that makes grants and, as such, little cost for fundraising has been incurred.

13. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

14. 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):

	<u>2009</u>	<u>2008</u>
Change in net assets:	\$ 3,392,770	\$ (30,902,123)
Adjustments to reconcile the change in net assets to net cash used in program activities:		
Net investment activity	(10,531,800)	23,415,803
Depreciation	49,697	51,387
Decrease in:		
Other assets	139,447	83,682
Increase (decrease) in:		
Accounts payable and other liabilities	504,998	(493,943)
Grants payable	(821,726)	2,268,735
Deferred contract fees	426,641	-
	<u> </u>	<u> </u>
Net cash used in program activities	\$ <u>(6,839,973)</u>	\$ <u>(5,576,459)</u>

Cash paid for interest totaled \$71,492 and \$84,014 for the years ended December 31, 2009 and 2008, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

15. FAIR VALUE MEASUREMENTS

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

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

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

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

Fair values of assets at December 31, 2009 and 2008 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2009:</u>				
Recurring:				
Investments - Marketable securities	\$ 39,815,080	\$ 39,815,080	\$ -	\$ -
Investments - Alternative investments	31,539,748	-	-	31,539,748
<u>December 31, 2008:</u>				
Recurring:				
Investments - Marketable securities	\$ 34,612,310	\$ 34,612,310	\$ -	\$ -
Investments - Alternative investments	31,248,326	-	-	31,248,326

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
December 31, 2009 and 2008**

15. 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>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 31,248,326	\$ 36,331,909
Net capital contributions and distributions	539,110	1,894,009
Realized gains (losses)	(1,529,582)	2,818,747
Unrealized gains (losses)	<u>1,281,894</u>	<u>(9,796,339)</u>
Balance at end of year	<u>\$ 31,539,748</u>	<u>\$ 31,248,326</u>

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audit of the combined financial statements of Northwest Health Foundation and Northwest Health Foundation Fund II as of December 31, 2009 appears on page 1. This audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information in Schedules I and II is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

McDonald Jacobs, P.C.

May 24, 2010

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, 2009

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
ASSETS				
Cash and cash equivalents	\$ 653,675	\$ 2,362,116		\$ 3,015,791
Investments	55,771,325	21,857,021		77,628,346
Prepaid expenses and other assets	17,671	24,637	-	42,308
Intercompany receivable	-	2,884,827	(2,884,827)	-
Net property and equipment	193,562	-	-	193,562
TOTAL ASSETS	<u>\$ 56,636,233</u>	<u>\$ 27,128,601</u>	<u>\$ (2,884,827)</u>	<u>\$ 80,880,007</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 608,793	\$ 444,733	\$ -	\$ 1,053,526
Line of credit	3,000,000	-	-	3,000,000
Grants payable	1,688,681	7,852,771	-	9,541,452
Deferred contract fees	-	426,641	-	426,641
Intercompany payable	2,884,827	-	(2,884,827)	-
Total liabilities	<u>8,182,301</u>	<u>8,724,145</u>	<u>(2,884,827)</u>	<u>14,021,619</u>
Net assets:				
Unrestricted	48,453,932	1,227,251	-	49,681,183
Temporarily restricted	-	17,177,205	-	17,177,205
Total net assets	<u>48,453,932</u>	<u>18,404,456</u>	<u>-</u>	<u>66,858,388</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,636,233</u>	<u>\$ 27,128,601</u>	<u>\$ (2,884,827)</u>	<u>\$ 80,880,007</u>

See auditor's report on supplementary information.

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

**SUPPLEMENTARY INFORMATION - SCHEDULE II
COMBINING STATEMENT OF ACTIVITIES
For the year ended December 31, 2009**

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Combined Totals
Investment income:				
Interest and dividend income	\$ 539,276	\$ 522,175	\$ -	\$ 1,061,451
Net realized and unrealized gains	6,717,508	3,083,453	-	9,800,961
Management fees	(71,045)	(27,924)	-	(98,969)
Net loss from real estate LLC	(5,377)	-	-	(5,377)
Investment income, net of fees	<u>7,180,362</u>	<u>3,577,704</u>	-	<u>10,758,066</u>
Investment expenses:				
Investment administrative expenses	<u>155,979</u>	<u>70,287</u>	-	<u>226,266</u>
Net investment income	<u>7,024,383</u>	<u>3,507,417</u>	-	<u>10,531,800</u>
Other revenue:				
Contributions and grants	-	3,520,111	-	3,520,111
Administrative fees	-	434,029	-	434,029
Contributions and fees for sponsored funds	-	323,518	-	323,518
Total other revenue	<u>-</u>	<u>4,277,658</u>	-	<u>4,277,658</u>
Total revenue, net of investment losses	<u>7,024,383</u>	<u>7,785,075</u>	-	<u>14,809,458</u>
Expenses:				
Program expenses:				
Access to healthcare	888,918	-	-	888,918
Nursing workforce shortage	233,941	-	-	233,941
Public health	1,370,837	-	-	1,370,837
Other grants	150,072	315,457	-	465,529
Kaiser Permanente grants	-	3,138,854	-	3,138,854
Partners in nursing	-	2,320,661	-	2,320,661
Service fees	-	425,629	-	425,629
Program administrative expenses	<u>722,305</u>	<u>1,138,227</u>	-	<u>1,860,532</u>
Total program expenses	<u>3,366,073</u>	<u>7,338,828</u>	-	<u>10,704,901</u>
Interest expense	71,952	-	-	71,952
General and administrative expenses	<u>415,534</u>	<u>224,301</u>	-	<u>639,835</u>
Total expenses	<u>3,853,559</u>	<u>7,563,129</u>	-	<u>11,416,688</u>
Change in net assets	3,170,824	221,946	-	3,392,770
Net assets - beginning of year	<u>45,283,108</u>	<u>18,182,510</u>	-	<u>63,465,618</u>
Net assets - end of year	<u>\$ 48,453,932</u>	<u>\$ 18,404,456</u>	<u>\$ -</u>	<u>\$ 66,858,388</u>

See auditor's report on supplementary information.