

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

**Consolidated
Audited Financial
Statements**

**For the Years Ended
December 31, 2008 and 2007**



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

Jake Jacobs, CPA

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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 consolidated statements of financial position of Northwest Health Foundation (the Foundation) and Northwest Health Foundation Fund II (Fund II) as of December 31, 2008 and 2007, and the related consolidated 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2008 and 2007, 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 18, 2009

Strength in Numbers

- 1 -

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007**

	2008	2007
ASSETS		
Investments:		
Cash equivalents	\$ 5,517,282	\$ 6,723,147
Marketable securities	34,612,310	58,923,821
Alternative investment interests (Note 2)	31,248,326	36,331,909
Investment in real estate LLC	5,254,066	1,004,399
Total investments	76,631,984	102,983,276
Prepaid expenses and other assets	181,755	265,437
Net property and equipment	213,585	255,942
TOTAL ASSETS	\$ 77,027,324	\$ 103,504,655
LIABILITIES AND NET ASSETS		
Liabilities:		
Line of credit	\$ 2,650,000	\$ -
Accounts payable and accrued expenses	548,528	565,959
Grants payable	10,363,178	8,094,443
Deferred contract fees	-	476,512
Total liabilities	13,561,706	9,136,914
Net assets:		
Unrestricted	46,195,340	67,950,300
Temporarily restricted	17,270,278	26,417,441
Total net assets	63,465,618	94,367,741
TOTAL LIABILITIES AND NET ASSETS	\$ 77,027,324	\$ 103,504,655

See notes to financial statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended December 31, 2008 and 2007**

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, not of investment loss:						
Investment income:						
Interest and dividend income	\$ 1,117,060	\$ 281,629	\$ 1,398,689	\$ 1,215,797	\$ 312,417	\$ 1,528,214
Net realized and unrealized gains (losses)	(18,421,614)	(6,006,080)	(24,427,694)	5,723,150	2,125,873	7,849,023
Management fees	(105,932)	(39,682)	(145,614)	(161,348)	(44,203)	(205,551)
Investment income (loss), net of fees	(17,410,486)	(5,764,133)	(23,174,619)	6,777,599	2,394,087	9,171,686
 Investment expenses:						
Investment administrative expenses	168,445	72,739	241,184	194,435	56,090	250,525
 Net investment income (loss)	(17,578,931)	(5,836,872)	(23,415,803)	6,583,164	2,337,997	8,921,161
 Support and other revenue:						
Contributions and grants	-	3,782,706	3,782,706	28,537	5,065,785	5,094,322
Administrative fees and other revenue	660,866	-	660,866	609,079	-	609,079
Contributions and fees for sponsored funds	-	446,321	446,321	-	594,416	594,416
Net assets released from restrictions:						
Satisfaction of purpose restrictions	7,539,318	(7,539,318)	-	7,320,653	(7,320,653)	-
Total support and other revenue	8,200,184	(3,310,291)	4,889,893	7,958,269	(1,660,452)	6,297,817
 Total revenue, net of investment loss	(9,378,747)	(9,147,163)	(18,525,910)	14,541,433	677,545	15,218,978

(Continued)

See notes to financial statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended December 31, 2008 and 2007**

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Expenses:						
Program expenses:						
Access to healthcare	833,222	-	833,222	117,558	-	117,558
Nursing workforce shortage	219,007	-	219,007	813,673	-	813,673
Public health	1,345,711	-	1,345,711	634,610	-	634,610
Other grants	1,114,283	-	1,114,283	1,847,416	-	1,847,416
Kaiser Permanente grants	3,039,579	-	3,039,579	3,105,059	-	3,105,059
Partners in nursing	2,471,510	-	2,471,510	2,750,000	-	2,750,000
Service fees	374,611	-	374,611	400,176	-	400,176
Program administrative expenses	2,287,550	-	2,287,550	1,951,462	-	1,951,462
Total program expenses	11,685,473	-	11,685,473	11,619,954	-	11,619,954
Interest expense	84,014	-	84,014	-	-	-
General and administrative expenses	606,726	-	606,726	503,047	-	503,047
Total expenses	12,376,213	-	12,376,213	12,123,001	-	12,123,001
Change in net assets	(21,754,960)	(9,147,163)	(30,902,123)	2,418,432	677,545	3,095,977
Net assets - beginning of year	67,950,300	26,417,441	94,367,741	65,531,868	25,739,896	91,271,764
Net assets - end 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>

(Concluded)

See notes to financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2008 and 2007**

	2008	2007
Cash flows from investing activities:		
Net investment income (loss)	\$ (23,415,803)	\$ 8,921,161
Adjustments to reconcile change in net investment income (loss) to net cash provided by investing activities:		
Additions to furnishings and equipment	(9,030)	(247,819)
Realized and unrealized (gain)loss on investments	24,427,694	(7,849,023)
Investments:		
Net increase in short-term investments	(1,607,732)	(923,245)
Purchase of investments	(9,022,690)	(3,463,837)
Proceeds from the sale of investments	16,803,687	6,930,106
Investment in building	(4,249,667)	(300,037)
	2,926,459	3,067,306
Cash flows from program activities:		
Contributions and other receipts	4,413,381	6,076,059
Grant payments and program funding	(6,202,265)	(5,617,668)
Payments to employees and vendors	(3,787,575)	(3,525,697)
	(5,576,459)	(3,067,306)
Cash flows from financing activities:		
Net proceeds from line of credit	2,650,000	-
	2,650,000	-
Net cash provided by financing activities		
	-	-
Net increase (decrease) in cash	-	-
Cash and cash equivalents - beginning of year	-	-
Cash and cash equivalents - end of year	\$ -	\$ -

See notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

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 Consolidation and Basis of Presentation

The consolidated financial statements for 2008 and 2007 include the accounts of the Foundation and Fund II. All intercompany transactions and balances as of December 31, 2008 and 2007 have been eliminated. 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 2008 and 2007.

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. Cash equivalents included in investments are classified as investments.

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 4). Investments in the building and improvements are stated at cost.

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

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

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

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

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

Income and Excise Taxes, Continued

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 2008 and 2007.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

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>2008</u>	<u>2007</u>
Cash equivalents	\$ 5,517,282	\$ 6,723,147
Marketable securities:		
Fixed income securities	5,605,646	5,909,700
Domestic equities	20,014,647	33,890,993
International equities	<u>8,992,017</u>	<u>19,123,128</u>
Total marketable securities	<u>34,612,310</u>	<u>58,923,821</u>
Alternative investment interests:		
Hedge funds	19,744,807	25,305,757
Private equities	10,201,779	9,938,363
Real estate funds	<u>1,301,740</u>	<u>1,087,789</u>
Total alternative investment interests	<u>31,248,326</u>	<u>36,331,909</u>
Real estate (Note 4)	<u>5,254,066</u>	<u>1,004,399</u>
Total investments	<u>\$ 76,631,984</u>	<u>\$ 102,983,276</u>

Cost basis of investments totaled \$79,543,238 for 2008 and \$81,438,922 for 2007.

Commitments for alternative investment interests not yet funded approximate \$5,285,000 at December 31, 2008.

The fair value of alternative investments is based on the most recent valuation provided by investment managers, adjusted for any capital contributions and distributions through the last day of the reporting period. The Foundations often have a significant delay after the end of the period before receiving the final adjusted valuations from the investment managers. For the year ended December 31, 2008, management used the same accounting policy for computing estimated values for alternative investments as was utilized in prior years. Due to unusual fluctuations in the market during the immediate three months preceding year end, management estimates that the valuation of the alternative investments declined by approximately \$1,721,000 through December 31, 2008. The estimated change in valuation has been reflected in the amounts reported.

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Office furniture and equipment	\$ 462,043	\$ 520,193
Less accumulated depreciation	248,458	264,251
Net property and equipment	\$ 213,585	\$ 255,942

4. INVESTMENT IN REAL ESTATE LLC

In July 2006, the Foundation entered into an agreement to purchase a building for \$4,350,000. The purchase occurred in February 2008. The building and improvements are owned by a single member LLC. The Foundation is the sole member of the LLC and all activity of the LLC is reported by the Foundation in the consolidated financial statements. The building will be held for investment purposes and leased to various nonprofits organizations. 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:

	2008	2007
Assets:		
Cash	\$ 100,561	\$ -
Accounts receivable	4,361	66,699
Prepaid expenses	35,484	-
Land, building and improvements, net of accumulated depreciation of \$247,776 and \$60,835, respectively	5,212,859	938,200
Total assets	\$ 5,353,265	\$ 1,004,899
Liabilities		
Accounts payable and other liabilities	99,199	500
Net equity	\$ 5,254,066	\$ 1,004,399

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

4. INVESTMENT IN REAL ESTATE LLC, Continued

Income:

Rent, including rent from the Foundation and Fund II of \$182,097 and \$63,544, respectively	\$ 477,546	\$ 80,038
Interest income	4,081	-
Total income	481,627	80,038
Operating expenses	425,346	74,675
Change in net assets	\$ 56,281	\$ 5,363
Member contributions during the year	\$ 4,193,386	\$ 999,035

5. LINE OF CREDIT

The Foundation has a \$3,000,000 revolving line of credit with Bank of America. Interest on the line is payable monthly at the floating LIBOR daily rate plus 1.00% (2.04% December 31, 2008). The line matures on February 28, 2010, is secured by investments and is subject to certain financial covenants. Outstanding advances on the line of credit totaled \$2,650,000 at December 31, 2008. Interest expenses on the line of credit totaled \$84,014 for the year ended December 31, 2008.

6. GRANTS PAYABLE

Grants payable represent unconditional promises to give as follows:

	2008	2007
Due within one year	\$ 6,923,719	\$ 5,667,585
Due within two to five years	3,439,459	2,426,858
Total grants payable	\$ 10,363,178	\$ 8,094,443

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 FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

7. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2008 and 2007 are as follows:

	2008	2007
Neighborhood Health Clinics - initial contribution	\$ 145,393	\$ 145,393
Neighborhood Health Clinics - earnings	4,728	42,978
Kaiser Permanente Community Fund	15,406,939	24,322,813
Kaiser Permanente Center for Health Research Endowed Scientist Fund	1,213,765	1,500,000
Jennifer Baker Fund	11,483	11,205
Physical Activity and Healthy Eating	211,605	48,443
Robert Wood Johnson programs	139,344	159,333
Administration	8,175	4,100
Oregon Simulation Alliance	67,721	77,238
Jefferson Regional Health Alliance	16,082	23,157
Oregon Health Care Workforce Institute	37,501	82,781
Systems and Health Conference	7,542	-
Total temporarily restricted net assets	\$ 17,270,278	\$ 26,417,441

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

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 2008 and 2007. The contributions to the profit sharing plan for the years ended December 31, 2008 and 2007 totaled \$172,201 and \$137,329, respectively.

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

9. LEASE COMMITMENTS

On February 1, 2007, the Foundation relocated to new office space under a lease agreement that expired February 29, 2008 at which time the Foundation acquired the property through a wholly-owned, single member LLC (see Note 4). Monthly rent was \$11,080 through February 2008. The Foundation subleased a portion of the office space to eight other nonprofit organizations.

The Foundation leases a printer, a fax machine and a photocopier under operating lease agreements. Minimum monthly payments of \$652 are payable through November 2010.

Lease expense for the years ended December 31, 2008 and 2007 approximated \$30,000 and \$178,000, respectively.

Future annual rentals under the agreements are as follows:

	Rent <u>Expense</u>
December 31, 2009	\$ 7,800
2010	7,200

In addition to the leases listed above, the Foundation entered into a lease agreement with the wholly-owned single member LLC that owns the building where the Foundation and Fund II are located (see Note 4). The Foundation is the sole member of the LLC and all activities have been reflected in the investment in the LLC on the Statement of Financial Position.

The LLC leases space to other, unrelated, entities under leases primarily with terms of one year or less.

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 \$348,339 and \$304,077 as of December 31, 2008 and 2007, respectively.

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

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. The percentage set by the board cannot be less than a reasonable rate of return, and cannot be less than the minimum distribution that would be required if the Foundation were a private foundation subject to Section 4942 of the Internal Revenue Code.

12. ALLOCATED EXPENSES

Costs of providing program expenses 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, 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 FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

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):

	2008	2007
Change in net assets:	\$ (30,902,123)	\$ 3,095,977
Adjustments to reconcile the change in net assets to net cash used in program activities:		
Net investment activity	23,415,803	(8,921,161)
Depreciation	51,387	47,823
(Increase) decrease in:		
Other assets	83,682	(22,749)
Increase (decrease) in:		
Accounts payable and other liabilities	(493,943)	(334,754)
Grants payable	2,268,735	3,067,558
Net cash used in program activities	\$ (5,576,459)	\$ (3,067,306)

Cash paid for interest totaled \$84,014 for the year ended December 31, 2008.

15. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the Statement 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.

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

Fair values of assets at December 31, 2008 and 2007 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2008:</u>				
Recurring:				
Investments - Marketable securities	\$ 34,612,310	\$ 34,612,310	\$ -	\$ -
Investments - Alternative investments	31,248,326	-	-	31,248,326
Non-Recurring:				
Investments - Real estate	5,254,066	-	5,254,066	-
<u>December 31, 2007:</u>				
Recurring:				
Investments - Marketable securities	\$ 58,923,821	\$ 58,923,821	\$ -	\$ -
Investments - Alternative investments	36,331,909	-	-	36,331,909
Non-Recurring:				
Investments - Real estate	1,004,399	-	1,004,399	-

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 have been estimated by management (in the absence of readily determinable fair values) based on information provided by fund managers or the general partners. Fair values of investments in real estate have been based on the appraised value at the time of acquisition, plus additions at cost.

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

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 36,331,909	\$ 30,811,075
Net capital contributions and distributions	1,894,009	1,497,831
Realized gains	2,818,747	1,095,532
Unrealized gains (losses)	<u>(9,796,339)</u>	<u>2,927,471</u>
Balance at end of year	<u>\$ 31,248,326</u>	<u>\$ 36,331,909</u>

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

**NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2008 and 2007**

16. RESTATEMENT OF 2007 FINANCIAL STATEMENTS

The 2007 financial statements were restated to reflect the assets, liabilities, revenue and expenses of accounts originally reported as agency transactions. During 2008, management obtained new information which clarified the nature of the transactions and determined that the amounts should be included in the revenue and expenses of Fund II. The effect of the restatement increased revenues by \$594,416, expenses by \$407,124 and net assets by \$183,176.

SUPPLEMENTARY INFORMATION



McDONALD JACOBS

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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 consolidated financial statements of Northwest Health Foundation and Northwest Health Foundation Fund II as of December 31, 2008 appears on page 1. This audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules I and II is presented for purposes of additional analysis of the consolidated 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 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

McDonald Jacobs, P.C.

May 18, 2009

Strength in Numbers

- 18 -

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

**SUPPLEMENTARY INFORMATION - SCHEDULE I
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2008**

	<u>Northwest Health Foundation</u>	<u>Northwest Health Foundation Fund II</u>	<u>Eliminating Entries</u>	<u>Consolidated Totals</u>
ASSETS				
Investments:				
Cash equivalents	\$ 625,919	\$ 4,891,363	\$ -	\$ 5,517,282
Marketable securities	20,883,358	13,728,952	-	34,612,310
Alternative investment interests	25,143,671	6,104,655	-	31,248,326
Investment in real estate LLC	<u>5,254,066</u>	<u>-</u>	<u>-</u>	<u>5,254,066</u>
Total investments	51,907,014	24,724,970	-	76,631,984
Prepaid expenses and other assets	43,192	138,563	-	181,755
Intercompany receivable	-	1,571,342	(1,571,342)	-
Net property and equipment	<u>213,585</u>	<u>-</u>	<u>-</u>	<u>213,585</u>
TOTAL ASSETS	<u>\$ 52,163,791</u>	<u>\$ 26,434,875</u>	<u>\$ (1,571,342)</u>	<u>\$ 77,027,324</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 468,556	\$ 79,972	\$ -	\$ 548,528
Line of credit	2,650,000	-	-	2,650,000
Grants payable	2,190,785	8,172,393	-	10,363,178
Intercompany payable	<u>1,571,342</u>	<u>-</u>	<u>(1,571,342)</u>	<u>-</u>
Total liabilities	<u>6,880,683</u>	<u>8,252,365</u>	<u>(1,571,342)</u>	<u>13,561,706</u>
Net assets:				
Unrestricted	45,283,108	912,232	-	46,195,340
Temporarily restricted	<u>-</u>	<u>17,270,278</u>	<u>-</u>	<u>17,270,278</u>
Total net assets	<u>45,283,108</u>	<u>18,182,510</u>	<u>-</u>	<u>63,465,618</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 52,163,791</u>	<u>\$ 26,434,875</u>	<u>\$ (1,571,342)</u>	<u>\$ 77,027,324</u>

See auditor's report on supplementary information.

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

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

For the year ended December 31, 2008

	Northwest Health Foundation	Northwest Health Foundation Fund II	Eliminating Entries	Consolidated Totals
Investment income (loss):				
Interest and dividend income	\$ 722,708	\$ 675,981	\$ -	\$ 1,398,689
Net realized and unrealized losses	(18,342,065)	(6,085,629)	-	(24,427,694)
Management fees	(105,424)	(40,190)	-	(145,614)
Investment income (loss), net of fees	(17,724,781)	(5,449,838)	-	(23,174,619)
 Investment expenses:				
Investment administrative expenses	172,207	68,977	-	241,184
 Net investment income (loss)	(17,896,988)	(5,518,815)	-	(23,415,803)
 Other revenue:				
Contributions and grants	-	3,782,706	-	3,782,706
Administrative fees	-	660,866	-	660,866
Contributions and fees for sponsored funds	-	446,321	-	446,321
Total other revenue	-	4,889,893	-	4,889,893
 Total revenue, net of investment losses	(17,896,988)	(628,922)	-	(18,525,910)
 Expenses:				
Program expenses:				
Access to healthcare	833,222	-	-	833,222
Nursing workforce shortage	219,007	-	-	219,007
Public health	1,345,711	-	-	1,345,711
Other grants	302,032	812,251	-	1,114,283
Kaiser Permanente grants	-	3,039,579	-	3,039,579
Partners in nursing	-	2,471,510	-	2,471,510
Service fees	-	374,611	-	374,611
Program administrative expenses	726,201	1,561,349	-	2,287,550
Total program expenses	3,426,173	8,259,300	-	11,685,473
Interest expense	84,014	-	-	84,014
General and administrative expenses	488,664	118,062	-	606,726
 Total expenses	3,998,851	8,377,362	-	12,376,213
 Change in net assets	(21,895,839)	(9,006,284)	-	(30,902,123)
Net assets - beginning of year	67,178,947	27,188,794	-	94,367,741
Net assets - end of year	\$ 45,283,108	\$ 18,182,510	\$ -	\$ 63,465,618

See auditor's report on supplementary information.