



Report of Independent Auditors
and Financial Statements for

**Yakima Valley Memorial Hospital
Charitable Foundation**

October 31, 2015 and 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
FINANCIAL STATEMENTS	
Balance sheets	3-4
Statements of activities	5-6
Statements of functional expenses	7-8
Statements of cash flows	9
Notes to financial statements	10-20

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Yakima Valley Memorial Hospital Charitable Foundation

Report on Financial Statements

We have audited the accompanying financial statements of Yakima Valley Memorial Hospital Charitable Foundation, which comprise the balance sheets as of October 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yakima Valley Memorial Hospital Charitable Foundation as of October 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Yakima, Washington

February 22, 2016

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
BALANCE SHEET

	October 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
ASSETS				
Cash and cash equivalents	\$ 284,700	\$ 1,485,275	\$ -	\$ 1,769,975
Support receivable, net of allowance for doubtful support	-	458,934	-	458,934
Investment securities	1,578,925	3,592,444	312,685	5,484,054
Charitable trusts and charitable gift annuities	-	173,893	-	173,893
TOTAL ASSETS	<u>\$ 1,863,625</u>	<u>\$ 5,710,546</u>	<u>\$ 312,685</u>	<u>\$ 7,886,856</u>
LIABILITIES AND NET ASSETS				
Accounts and program allocations payable	\$ 42,433	\$ -	\$ -	\$ 42,433
Due to Enterprise for Progress in the Community	-	34,357	-	34,357
Due to Living Care	-	34,357	-	34,357
Deferred liabilities	-	68,609	-	68,609
Total liabilities	<u>42,433</u>	<u>137,323</u>	-	<u>179,756</u>
Total net assets	<u>1,821,192</u>	<u>5,573,223</u>	<u>312,685</u>	<u>7,707,100</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,863,625</u>	<u>\$ 5,710,546</u>	<u>\$ 312,685</u>	<u>\$ 7,886,856</u>

**YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
BALANCE SHEET**

October 31, 2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 162,225	\$ 1,185,128	\$ -	\$ 1,347,353
-	666,920	-	666,920
1,340,343	3,785,687	312,685	5,438,715
-	188,128	-	188,128
<u>\$ 1,502,568</u>	<u>\$ 5,825,863</u>	<u>\$ 312,685</u>	<u>\$ 7,641,116</u>

\$ 173,949	\$ -	\$ -	\$ 173,949
-	35,637	-	35,637
-	35,637	-	35,637
-	75,948	-	75,948
173,949	147,222	-	321,171
<u>1,328,619</u>	<u>5,678,641</u>	<u>312,685</u>	<u>7,319,945</u>
<u>\$ 1,502,568</u>	<u>\$ 5,825,863</u>	<u>\$ 312,685</u>	<u>\$ 7,641,116</u>

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
STATEMENT OF ACTIVITIES

	Year Ended October 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Donations	\$ 364,237	\$ 2,129,926	\$ -	\$ 2,494,163
Investment earnings	18,163	164,669	-	182,832
Realized gain on investment securities	15,902	36,208	-	52,110
Unrealized loss on investment securities	(39,860)	(167,223)	-	(207,083)
Residual proceeds from gift annuities	-	-	-	-
Net assets released from restrictions	2,268,998	(2,268,998)	-	-
	<u>2,627,440</u>	<u>(105,418)</u>	<u>-</u>	<u>2,522,022</u>
EXPENSES				
General and administrative	125,046	-	-	125,046
Capital campaign/grant writing	5,165	-	-	5,165
Fundraising	79,726	-	-	79,726
Charitable trusts and charitable gift annuities	31,460	-	-	31,460
	<u>241,397</u>	<u>-</u>	<u>-</u>	<u>241,397</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE ALLOCATIONS	2,386,043	(105,418)	-	2,280,625
ALLOCATIONS TO CHILD HEALTH AND OTHER PROGRAMS	<u>(1,893,470)</u>	<u>-</u>	<u>-</u>	<u>(1,893,470)</u>
INCREASE (DECREASE) IN NET ASSETS	492,573	(105,418)	-	387,155
NET ASSETS, beginning of year	<u>1,328,619</u>	<u>5,678,641</u>	<u>312,685</u>	<u>7,319,945</u>
NET ASSETS, end of year	<u>\$ 1,821,192</u>	<u>\$ 5,573,223</u>	<u>\$ 312,685</u>	<u>\$ 7,707,100</u>

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
STATEMENT OF ACTIVITIES

Year Ended October 31, 2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 162,225	\$ 2,992,370	\$ -	\$ 3,154,595
26,224	126,184	-	152,408
1,640	42,650	-	44,290
16,879	119,137	-	136,016
-	197,250	-	197,250
2,332,279	(2,332,279)	-	-
2,539,247	1,145,312	-	3,684,559
91,988	-	-	91,988
14,186	-	-	14,186
79,154	-	-	79,154
81,160	-	-	81,160
266,488	-	-	266,488
2,272,759	1,145,312	-	3,418,071
(2,056,587)	-	-	(2,056,587)
216,172	1,145,312	-	1,361,484
1,112,447	4,533,329	312,685	5,958,461
\$ 1,328,619	\$ 5,678,641	\$ 312,685	\$ 7,319,945

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended October 31, 2015				Total
	General and Administrative	Capital Campaign/ Grant Writing	Fundraising	Charitable Trusts and Charitable Gift Annuities	
Salaries	\$ 57,648	\$ -	\$ 31,916	\$ -	\$ 89,564
Supplies	3,735	-	1,468	-	5,203
Purchased services	61,831	-	46,258	-	108,089
Doubtful support	-	5,165	-	-	5,165
Other	1,832	-	84	-	1,916
Payments to annuitants and other	-	-	-	31,460	31,460
	<u>\$ 125,046</u>	<u>\$ 5,165</u>	<u>\$ 79,726</u>	<u>\$ 31,460</u>	<u>\$ 241,397</u>

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2014					
General and Administrative	Capital Campaign/ Grant Writing	Fundraising	Charitable Trusts and Charitable Gift Annuities	Total	
\$ 49,403	\$ -	\$ 48,505	\$ -	\$ 97,908	
2,757	-	2,879	-	5,636	
34,005	-	27,159	-	61,164	
-	14,186	-	-	14,186	
5,823	-	611	-	6,434	
-	-	-	81,160	81,160	
<u>\$ 91,988</u>	<u>\$ 14,186</u>	<u>\$ 79,154</u>	<u>\$ 81,160</u>	<u>\$ 266,488</u>	

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
STATEMENTS OF CASH FLOWS

	Year Ended October 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors and others	\$ 2,687,085	\$ 3,197,190
Cash paid for programs	(2,261,218)	(2,179,747)
Investment earnings received	182,832	152,408
Net cash from operating activities	608,699	1,169,851
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(519,170)	(1,187,960)
Proceeds from sale of investment securities	318,858	56,189
Net change in charitable trusts and charitable gift annuities	14,235	229,627
Net cash from investing activities	(186,077)	(902,144)
NET INCREASE IN CASH AND CASH EQUIVALENTS	422,622	267,707
CASH AND CASH EQUIVALENTS, beginning of year	1,347,353	1,079,646
CASH AND CASH EQUIVALENTS, end of year	\$ 1,769,975	\$ 1,347,353
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 387,155	\$ 1,361,484
Adjustments to reconcile increase in net assets to net cash from operating activities		
Realized gain on sale of investment securities	(52,110)	(44,290)
Unrealized (gain) loss on investment securities	207,083	(136,016)
Increase (decrease) in cash due to changes in assets and liabilities		
Support receivable	207,986	54,244
Accounts and program allocations payable	(131,516)	129,142
Due to Living Care	(1,280)	1,825
Due to Enterprise for Progress in the Community	(1,280)	1,825
Deferred liabilities	(7,339)	(198,363)
Net adjustments	221,544	(191,633)
NET CASH FROM OPERATING ACTIVITIES	\$ 608,699	\$ 1,169,851

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization

Yakima Valley Memorial Hospital Charitable Foundation (the Foundation) is organized as a not-for-profit corporation under the laws of the state of Washington and as a tax-exempt organization qualifying under Section 501(c)(3) of the Internal Revenue Code.

In accordance with its bylaws, the Foundation raises and distributes funds to promote and support health care services in coordination with Yakima Valley Memorial Hospital Association (the Hospital). A significant portion of the contributions to the Foundation are utilized for health care programs as shown in the statements of activities in the allocations to child health and other programs line. The Foundation's financial statements are consolidated with the Hospital's financial statements.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The Foundation maintains its accounting records on the accrual basis. Under this method of accounting, revenue is recognized when earned and expenses are recognized when goods or services are received, whether paid or not.

Cash and cash equivalents – For purposes of the statement of cash flows, the Foundation considers all investments with an original maturity of three months or less to be cash equivalents. The carrying amount reported in the balance sheets for cash and cash equivalents approximates fair value. The Foundation maintains its cash and cash equivalent accounts, which at times may exceed federally insured limits, at financial institutions. The Foundation has not experienced any losses in such accounts.

Financial statement presentation – The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Temporarily restricted net assets are available for the following purpose or periods:

	<u>2015</u>	<u>2014</u>
Unrestricted purposes subsequent to the dissolution of charitable trusts	\$ 34,357	\$ 35,637
Unrestricted purposes subsequent to the dissolution of charitable gift annuities	2,213	5,269
Dumas Endowment	294,283	310,659
Bergen Fund for Women	976,221	1,024,005
Children's Village Capital Campaign	670,169	878,364
Hospice Building Fund	118,284	79,440
Other programs, primarily related to children's health, equipment purchases, and other specific patient health needs	<u>3,477,696</u>	<u>3,345,267</u>
	<u>\$ 5,573,223</u>	<u>\$ 5,678,641</u>

Net assets were released from donor restrictions by incurring expenses for various specified programs which satisfy the restricted purpose.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable for purposes specified by the donors.

	<u>2015</u>	<u>2014</u>
Nova Endowment	\$ 212,685	\$ 212,685
Crain Endowment	<u>100,000</u>	<u>100,000</u>
	<u>\$ 312,685</u>	<u>\$ 312,685</u>

Financial statement 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 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.

Donated services – A substantial number of volunteers donate significant amounts of their time for the Foundation's program activities. No dollar amounts have been reflected in the accompanying statements for these services since the services do not require specialized skills and would typically not be purchased if not provided by donation.

Investments – The Foundation is required to report investments with readily determinable fair values at fair value with gains and losses included in the statements of activities. Fair value is determined by the open market. As a result, investments are carried at fair value as of the financial statement date.

Investments in general are exposed to various risks, such as interest rate, market, and credit risk. It is reasonably possible, given the level of risk associated with the investments, that changes in the near term could materially affect the Foundation's account balances and the amounts reported in the financial statements.

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Federal income tax – The Foundation is a tax-exempt organization qualifying under Section 501(c)(3) of the Internal Revenue Code. Income from certain activities not directly related to the Foundation's tax-exempt purpose would be subject to taxation as unrelated business income. The Foundation did not engage in an activity unrelated to its tax-exempt purpose; accordingly, no provision for income taxes has been made in the accompanying financial statements. In accordance with requirements related to accounting for uncertainties in income taxes, the Foundation has determined they have no uncertain tax positions at October 31, 2015 and 2014.

Functional allocation of expenses – In order to provide information regarding service efforts, the costs of providing each of the Foundation's programs have been presented on a functional basis in the statements of activities. In order to provide this presentation, certain costs were required to be allocated among the programs and supporting services benefited. For the years ended October 31, 2015 and 2014, general and administrative expenses are 5.86% and 3.96% of total expenses, respectively, including allocations to child health and other programs.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

See Note 8 for details on the subsequent event.

The Foundation has evaluated subsequent events through February 22, 2016, which is the date the financial statements are available to be issued.

Note 3 – Support Receivable

Support receivable represents unsecured contributions. The support receivable is temporarily restricted for Children's Village, the Hospice Building Fund, and other program expenditures. Receivables are charged to a reserve as they are deemed uncollectible based on a periodic review of accounts. Conditional promises to give are not included as support until the conditions are substantially met. Donations include cash and support receivable up to a five-year period. Support receivable consists of the following at October 31:

	2015	2014
Support receivable in less than one year	\$ 245,468	\$ 431,089
Support receivable in one to five years	235,250	254,450
	480,718	685,539
Less allowance for doubtful support	(21,784)	(18,619)
	\$ 458,934	\$ 666,920

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 4 – Charitable Gift Annuities, Charitable Trusts, and Deferred Liabilities

A portion of the Foundation's investments results from deferred-giving vehicles subject to split-interest agreements. Two different types of agreements are currently maintained: charitable gift annuities and charitable remainder unitrusts.

Charitable gift annuities are unrestricted irrevocable gifts under which the Foundation agrees in turn to pay a life annuity to the donor, or to a designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the Foundation. Charitable remainder unitrust gifts are time-restricted contributions not available to the Foundation until after the death of the donor, who, while living, receives an annual payout from the trust based on a fixed percentage of the market value of the invested funds on October 31 of each year.

The Foundation values deferred gifts of cash at face value and investments at market value. Contribution values are discounted on the basis of actuarial data contained in a software program commonly used by not-for-profit organizations. Discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred-giving arrangements.

As an issuer of charitable gift annuities, the Foundation has maintained minimum reserves as required by Washington State.

The charitable trusts represent the assets of charitable remainder unitrusts which have been contributed to the Foundation. The trust assets are not currently available to be used by the Foundation and this is indicated by the recording of temporarily restricted net assets and the related deferred liabilities. Each trust pays an annuity back to the donor based on a fixed percentage of the trust's assets as measured at fair market value on the first day of each trust year. The present value of these annuities is recorded as a deferred liability based on the estimated remaining life of the annuitant(s) and using the applicable discount rate.

When conditions under the trust have been met, the trust assets will be available to be used by the Foundation in accordance with the donor's wishes. One of these trusts requires distributions which go to other organizations. Under the terms of this trust, the Foundation is required to distribute one-third (1/3) of the accumulated trust assets at the date of the death of the successor beneficiary to Enterprise for Progress in the Community (EPIC) and one-third (1/3) of the accumulated trust assets at the date of death of the successor beneficiary to the Living Care Nursing Home. These amounts are recorded as liabilities by the Foundation.

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 5 – Fair Value of Assets

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active or inactive markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no changes in valuation methodologies used at October 31, 2015 and 2014.

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics, or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified with Level 3 of the hierarchy. There were no Level 3 investments as of October 31, 2015 and 2014. The Foundation's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances causing the transfer.

Mutual funds: Shares of mutual funds are valued at the net asset value (NAV) of shares held by the Foundation and are valued at the closing price reported on the active market on which the individual securities are traded.

Common stock and exchange-traded funds: Common stocks and exchange-traded funds are valued at the closing price reported on the major market on which the individual securities are traded. Common stock and exchange-traded funds are generally classified within Level 3 of the valuation hierarchy.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Certificates of deposit: Certificates of deposit are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 5 – Fair Value of Assets (continued)

The following table presents the fair value measurements of assets recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at October 31, 2015 and 2014:

	Fair Value Measurements Using			2015 Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investment securities				
Money market funds	\$ 61,939	\$ -	\$ -	\$ 61,939
Exchange traded funds	269,252	-	-	269,252
Mutual funds				
Domestic equity funds	1,913,604	-	-	1,913,604
International equity funds	359,849	-	-	359,849
Global equity funds	319,201	-	-	319,201
Fixed income funds	831,318	-	-	831,318
Real estate funds	112,174	-	-	112,174
Asset allocation funds	152,133	-	-	152,133
Common stock	61,199	-	-	61,199
Certificates of deposit	-	501,436	-	501,436
Corporate bonds	-	901,949	-	901,949
	<u>\$ 4,080,669</u>	<u>\$ 1,403,385</u>	<u>\$ -</u>	<u>\$ 5,484,054</u>
Charitable trusts and charitable gift annuities				
Money market funds	\$ 2,894	\$ -	\$ -	\$ 2,894
Exchange traded funds	100,913	-	-	100,913
Mutual funds				
Domestic equity funds	46,494	-	-	46,494
Global equity funds	5,094	-	-	5,094
International real estate	10,998	-	-	10,998
Corporate bonds	-	7,500	-	7,500
	<u>\$ 166,393</u>	<u>\$ 7,500</u>	<u>\$ -</u>	<u>\$ 173,893</u>

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 5 – Fair Value of Assets (continued)

	Fair Value Measurements Using			2014 Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investment securities				
Money market funds	\$ 110,913	\$ -	\$ -	\$ 110,913
Mutual funds				
Domestic equity funds	2,095,334	-	-	2,095,334
International equity funds	484,700	-	-	484,700
Global equity funds	369,929	-	-	369,929
Fixed income funds	982,754	-	-	982,754
Real estate funds	40,069	-	-	40,069
Asset allocation funds	108,476	-	-	108,476
Common stock	37,403	-	-	37,403
Certificates of deposit	-	500,453	-	500,453
Corporate bonds	-	708,684	-	708,684
	<u>\$ 4,229,578</u>	<u>\$ 1,209,137</u>	<u>\$ -</u>	<u>\$ 5,438,715</u>
Charitable trusts and charitable gift annuities				
Money market funds	\$ 11,751	\$ -	\$ -	\$ 11,751
Mutual funds				
Domestic equity funds	153,962	-	-	153,962
International equity funds	2,176	-	-	2,176
Global equity funds	15,355	-	-	15,355
Fixed income funds	4,884	-	-	4,884
	<u>\$ 188,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,128</u>

Note 6 – Endowment

The net asset classification of donor restricted endowment funds for a not-for-profit organization is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Disclosure about endowment funds, both donor-restricted endowment funds and board-designated endowment funds, is required.

The Foundation's endowment consists of permanently restricted funds established for general purposes. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 6 – Endowment (continued)

Interpretation of relevant law – The Foundation has interpreted the enacted version of UPMIFA for Washington State and determined that requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary is appropriate. As a result of this interpretation, the Foundation will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment, as applicable, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation will consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Endowment net assets consist of the following at October 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 255,000	\$ 312,685	\$ 567,685

Endowment net assets consist of the following at October 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 253,775	\$ 312,685	\$ 566,460

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 6 – Endowment (continued)

Changes in endowment net assets for the year ended October 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, November 1, 2014	\$ -	\$ 253,775	\$ 312,685	\$ 566,460
Investment return				
Investment income	-	13,362	-	13,362
Net depreciation	-	(10,921)	-	(10,921)
Fees	-	(1,216)	-	(1,216)
Total investment return	-	1,225	-	1,225
Contributions	-	-	-	-
Net assets released	-	-	-	-
Endowment net assets, October 31, 2015	<u>\$ -</u>	<u>\$ 255,000</u>	<u>\$ 312,685</u>	<u>\$ 567,685</u>

Changes in endowment net assets for the year ended October 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, November 1, 2013	\$ -	\$ 228,032	\$ 312,685	\$ 540,717
Investment return				
Investment income	-	10,630	-	10,630
Net appreciation	-	16,431	-	16,431
Fees	-	(1,318)	-	(1,318)
Total investment return	-	25,743	-	25,743
Contributions	-	-	-	-
Net assets released	-	-	-	-
Endowment net assets, October 31, 2014	<u>\$ -</u>	<u>\$ 253,775</u>	<u>\$ 312,685</u>	<u>\$ 566,460</u>

YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 6 – Endowment (continued)

Return objectives and risk parameters – The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Foundation Board, the endowment assets are invested as follows:

<u>Asset Class</u>	<u>Long-term Range</u>
Equities	40% - 80%
Fixed income	20% - 60%
Cash and equivalents	5% - 25%

The Foundation expects its endowment funds in aggregate, over time, to exceed the rate of inflation by three percent. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's investment policy guidelines for all investments is reviewed and reconfirmed or revised on a periodic basis. Performance of the Foundation's investments and the Foundation's investment manager is reviewed by the Foundation's Board of Trustees at least on a yearly basis.

Spending policy and how the investment objectives relate to spending policy – The Foundation uses the moving average method of determining year-to-year spending in order to smooth distributions from the aggregate portfolio. The portfolio value will be determined based on a three-year moving average of portfolio market value, with a budgeting lead of one year. The Foundation Investment Committee can set the spending rate up to six percent of the portfolio value.

Note 7 – Related-Party Transactions

The Foundation receives contributions and pledges from members of the Board of Trustees. Total contributions from members during the years ended October 31, 2015 and 2014 totaled \$84,060 and \$262,405, respectively. At October 31, 2015 and 2014, support receivable from members of the Board of Trustees totaled \$93,000 and \$126,495, respectively.

**YAKIMA VALLEY MEMORIAL HOSPITAL CHARITABLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Subsequent Event

In November 2015, the Hospital entered into an Affiliation Agreement with Virginia Mason Health System (VMHS) for VMHS to become the sole corporate member of the Hospital and the Hospital to become a part of the VMHS health system.

At that same time, the Foundation entered into an agreement with Memorial to define the ongoing close alignment of the Foundation with the Hospital. The Foundation, with its own governing board, remains as a separate nonprofit entity. Revised Bylaws and the signing of a Shared Services Agreement between the Foundation and the Hospital demonstrate the single enterprise that is the Hospital and the Foundation, preserving the long-standing, integrated, and supportive relationship. As described in the Shared Services Agreement and the Foundation's Restated Bylaws, the Hospital has certain governance authority over the Foundation. However, the agreement specifically provides the Foundation will maintain control over all Foundation fundraising and allocation processes.

Also in November 2015, the name of the Foundation was changed to The Memorial Foundation.