



REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

**THE MEMORIAL FOUNDATION**

December 31, 2020 and 2019

## Table of Contents

---

	PAGE
<b>Report of Independent Auditors</b>	1–2
<b>Financial Statements</b>	
Balance sheets	3–4
Statements of activities	5–6
Statements of functional expenses	7–8
Statements of cash flows	9–10
Notes to financial statements	11–22

## **Report of Independent Auditors**

Board of Trustees  
The Memorial Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Memorial Foundation, which comprise the balance sheets as of December 31, 2020 and 2019, 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 audit 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 we have 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 The Memorial Foundation as of December 31, 2020 and 2019, 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.

*Noas Adams LLP*

Yakima, Washington

April 22, 2021

## The Memorial Foundation Balance Sheets

---

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 389,527	\$ 2,855,502	\$ 3,245,029
Support receivable, net	-	207,515	207,515
Other receivable	-	15,081	15,081
Investments	3,923,796	7,712,534	11,636,330
Land and building, net	685,555	-	685,555
Charitable trusts and charitable gift annuities	-	197,333	197,333
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 4,998,878</u>	<u>\$ 10,987,965</u>	<u>\$ 15,986,843</u>
 <b>LIABILITIES AND NET ASSETS</b>			
Accounts and program allocations payable	\$ 389,778	\$ -	\$ 389,778
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
Loan payable	544,930	-	544,930
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	934,708	137,323	1,072,031
Total net assets	<u>4,064,170</u>	<u>10,850,642</u>	<u>14,914,812</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,998,878</u>	<u>\$ 10,987,965</u>	<u>\$ 15,986,843</u>

## The Memorial Foundation Balance Sheets

	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 537,435	\$ 1,341,037	\$ 1,878,472
Support receivable, net	-	326,875	326,875
Other receivable	-	59,182	59,182
Investments	3,032,138	7,574,098	10,606,236
Land and building, net	-	-	-
Charitable trusts and charitable gift annuities	-	190,890	190,890
	<u>\$ 3,569,573</u>	<u>\$ 9,492,082</u>	<u>\$ 13,061,655</u>
<b>LIABILITIES AND NET ASSETS</b>			
Accounts and program allocations payable	\$ 309,761	\$ -	\$ 309,761
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
Loan payable	-	-	-
	<u>309,761</u>	<u>137,323</u>	<u>447,084</u>
Total net assets	<u>3,259,812</u>	<u>9,354,759</u>	<u>12,614,571</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,569,573</u>	<u>\$ 9,492,082</u>	<u>\$ 13,061,655</u>

## The Memorial Foundation Statements of Activities

---

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	\$ 621,274	\$ 3,426,732	\$ 4,048,006
Investment earnings	361,404	20,892	382,296
Realized gain on investment securities	55,057	5,917	60,974
Unrealized gain on investment securities, net	787,806	31,386	819,192
Net assets released from restrictions	1,989,044	(1,989,044)	-
	<u>3,814,585</u>	<u>1,495,883</u>	<u>5,310,468</u>
EXPENSES			
General and administrative	701,984	-	701,984
Capital campaign/grant writing	69,893	-	69,893
Fundraising	190,224	-	190,224
Charitable trusts and charitable gift annuities	11,808	-	11,808
	<u>973,909</u>	<u>-</u>	<u>973,909</u>
INCREASE IN NET ASSETS BEFORE ALLOCATIONS	2,840,676	1,495,883	4,336,559
ALLOCATIONS TO CHILD HEALTH AND OTHER PROGRAMS	(962,683)	-	(962,683)
ALLOCATIONS RELATED TO CAPITAL CAMPAIGN	(1,073,635)	-	(1,073,635)
INCREASE IN NET ASSETS	804,358	1,495,883	2,300,241
NET ASSETS, beginning of year	3,259,812	9,354,759	12,614,571
NET ASSETS, end of year	<u>\$ 4,064,170</u>	<u>\$ 10,850,642</u>	<u>\$ 14,914,812</u>

## The Memorial Foundation Statements of Activities

	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	\$ 468,636	\$ 2,333,533	\$ 2,802,169
Investment earnings	374,037	24,037	398,074
Realized gain on investment securities	51,298	2,225	53,523
Unrealized gain on investment securities, net	1,155,837	63,037	1,218,874
Net assets released from restrictions	2,466,266	(2,466,266)	-
	4,516,074	(43,434)	4,472,640
EXPENSES			
General and administrative	504,810	-	504,810
Capital campaign/grant writing	41,397	-	41,397
Fundraising	271,249	-	271,249
Charitable trusts and charitable gift annuities	8,949	-	8,949
	826,405	-	826,405
INCREASE (DECREASE) IN NET ASSETS BEFORE ALLOCATIONS	3,689,669	(43,434)	3,646,235
ALLOCATIONS TO CHILD HEALTH AND OTHER PROGRAMS	(2,411,403)	-	(2,411,403)
ALLOCATIONS RELATED TO CAPITAL CAMPAIGN	-	-	-
INCREASE (DECREASE) IN NET ASSETS	1,278,266	(43,434)	1,234,832
NET ASSETS, beginning of year	1,981,546	9,398,193	11,379,739
NET ASSETS, end of year	\$ 3,259,812	\$ 9,354,759	\$ 12,614,571



**The Memorial Foundation**  
**Statements of Functional Expenses**

---

	December 31, 2020				
	General and Administrative	Capital Campaign/ Grant Writing	Fundraising	Charitable Trusts and Charitable Gift Annuities	Total
Salaries	\$ 407,871	\$ 44,126	\$ 89,984	\$ -	\$ 541,981
Supplies	49,192	23	2,048	-	51,263
Purchased services	55,659	25,638	76,276	-	157,573
Other	183,966	106	21,916	-	205,988
Depreciation	5,296	-	-	-	5,296
Payments to annuitants and other	-	-	-	11,808	11,808
	<u>\$ 701,984</u>	<u>\$ 69,893</u>	<u>\$ 190,224</u>	<u>\$ 11,808</u>	<u>\$ 973,909</u>

**The Memorial Foundation**  
**Statements of Functional Expenses**

---

	December 31, 2019				
	General and Administrative	Capital Campaign/ Grant Writing	Fundraising	Charitable Trusts and Charitable Gift Annuities	Total
Salaries	\$ 328,186	\$ 41,290	\$ 115,969	\$ -	\$ 485,445
Supplies	52,907	-	4,261	-	57,168
Purchased services	15,847	-	98,735	-	114,582
Other	107,870	107	52,284	-	160,261
Depreciation	-	-	-	-	-
Payments to annuitants and other	-	-	-	8,949	8,949
	<u>\$ 504,810</u>	<u>\$ 41,397</u>	<u>\$ 271,249</u>	<u>\$ 8,949</u>	<u>\$ 826,405</u>

## The Memorial Foundation

### Statements of Cash Flows

---

	Years Ended December 31,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributors and others	\$ 4,211,467	\$ 3,200,091
Cash paid for programs and other expenses	(2,924,914)	(3,205,272)
Investment earnings received	382,296	398,074
	<u>1,668,849</u>	<u>392,893</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land and building	(690,851)	-
Purchase of investment securities	(359,555)	(566,714)
Proceeds from sale of investment securities	209,627	146,139
Net change in charitable trusts and charitable gift annuities	(6,443)	(24,627)
	<u>(847,222)</u>	<u>(445,202)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan payable	547,200	-
Payments on loan payable	(2,270)	-
	<u>544,930</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,366,557	(52,309)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,878,472</u>	<u>1,930,781</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 3,245,029</u></u>	<u><u>\$ 1,878,472</u></u>

**The Memorial Foundation**  
**Statements of Cash Flows**

	Years Ended December 31,	
	2020	2019
<b>RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Increase in net assets	<u>\$ 2,300,241</u>	<u>\$ 1,234,832</u>
Adjustments to reconcile increase in net assets to net cash from operating activities		
Realized gain on sale of investment securities	(60,974)	(53,523)
Unrealized gain on investment securities	(819,192)	(1,218,874)
Change in allowance and discount of support receivable	-	21,000
Depreciation	5,296	-
Increase (decrease) in cash due to changes in assets and liabilities		
Other receivable	44,101	(59,182)
Support receivable	119,360	436,104
Accounts and program allocations payable	<u>80,017</u>	<u>32,536</u>
Net adjustments	<u>(631,392)</u>	<u>(841,939)</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>\$ 1,668,849</u>	<u>\$ 392,893</u>

# The Memorial Foundation

## Notes to Financial Statements

---

### Note 1 – Organization

The Memorial 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 Virginia Mason Memorial (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 in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board (FASB). 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 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.

**Basis of presentation** – The Foundation's financial statements are presented in accordance with GAAP, as codified by the FASB. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor restrictions.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purposes for which the resource was restricted has been fulfilled, or both. These are reported as reclassifications between the applicable classes of net assets.

## The Memorial Foundation Notes to Financial Statements

### Note 2 – Summary of Significant Accounting Policies (continued)

Net assets with donor restrictions consist of the following at December 31:

	2020	2019
Net assets with donor restrictions		
Subject to expenditure for a specified purpose		
Without donor restrictions subsequent to the dissolution of charitable trusts and charitable gift annuities	\$ 60,010	\$ 53,567
Dumas Fund	365,376	365,376
Bergen Fund for Women	1,206,351	1,206,351
CHAMPS Campaign	1,442,006	1,203,137
Hospice Building Fund	1,292,719	1,196,254
Nova and Crain funds subject to appropriation	394,570	355,070
Other programs, primarily related to children's health, equipment purchases, and other specific patient health needs	5,776,925	4,662,319
Net assets restricted by time or purpose	10,537,957	9,042,074
Subject to restriction in perpetuity		
Nova Endowment	212,685	212,685
Crain Endowment	100,000	100,000
Net assets with perpetual restrictions	312,685	312,685
Total net assets with donor restrictions	\$ 10,850,642	\$ 9,354,759

**Financial statement estimates** – The preparation of financial statements in accordance 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.

## The Memorial 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 December 31, 2020 and 2019.

**Revenue and revenue recognition** – The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on discounted cash flows. Amortization of the discounts is included in contributions. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at fair value using a current appraisal on the date of the gift and is generally made available for sale as soon as practicable. Contributions of public stock are recorded at the mean of the quoted market price on the date of receipt of donation. An allowance for estimated collectible contributions receivable will be recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Accounts are written off against the allowance when deemed uncollectible.

**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 statement of activities. In order to provide this presentation, certain costs were required to be allocated among the programs and supporting services benefited. These expenses include salaries, payroll taxes, and other benefits and were allocated based on estimates of time and effort. For the years ended December 31, 2020 and 2019, general and administrative expenses are 23.32% and 15.59%, respectively, of total expenses, 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.

Effective January 1, 2021, Virginia Mason Health System is no longer the sole corporate member of the Hospital. That change does not impact the Foundation's organizational structure or relationship with the Hospital.

The Foundation has evaluated subsequent events through April 22, 2021, which is the date the financial statements are available to be issued.

## The Memorial Foundation Notes to Financial Statements

---

### Note 3 – Support Receivable

Support receivable represents unsecured contributions. The support receivable is donor 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 December 31:

	2020	2019
Support receivable in less than one year	\$ 156,965	\$ 340,675
Support receivable in one to five years	150,550	86,200
Less discount to net present value at 4%	(21,639)	(25,290)
Less allowance for doubtful support	(78,361)	(74,710)
	\$ 207,515	\$ 326,875

### Note 4 – Land and Building and Loan Payable

Land and building are carried at original cost, or if donated, at fair value on date of the gift. All such assets, except land, are stated net of accumulated depreciation, which is computed on a straight-line basis over the estimated useful lives of the assets. Estimated useful life for the building is 30 years. As of December 31, 2020, land and buildings consisted of \$55,287 of land, and \$635,564 of building. Accumulated depreciation was \$5,296 for the year ended December 31, 2020.

A loan was finalized in September 2020 for the purchase of the land and building in the amount of \$547,200. The note is payable in monthly installments of \$2,692, including interest at 4.25%, and maturing on October 1, 2050.

Principal maturities of the note payable are as follows:

2021	\$ 9,291
2022	9,693
2023	10,113
2024	10,552
2025	11,009
Thereafter	494,272
	\$ 544,930



## The Memorial Foundation

### Notes to Financial Statements

---

#### Note 5 – Charitable Gift Annuities, Charitable Trusts, and Deferred Liabilities

A portion of the Foundation's investments result 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 donor restricted 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 that 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 net assets with donor restriction 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 that 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.

**Note 6 – 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 sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no changes in valuation methodologies used at December 31, 2020 and 2019.

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 within Level 3 of the hierarchy. There were no Level 3 investments as of December 31, 2020 and 2019. 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 and exchange-traded funds* – These are valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held are deemed to be actively traded. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission.

*Common stocks* – Common stocks are valued at the closing price reported on the major market on which the individual securities are traded. Common stocks are generally classified within Level 1 of the valuation hierarchy.

*Corporate bonds, government bonds, and mortgage- and asset-backed securities* – Valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades that may be considered indicative of an active market. Because quoted market prices are not available for the specific security, fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, discounted cash flows, and other observable inputs.

# The Memorial Foundation

## Notes to Financial Statements

---

### Note 6 – Fair Value of Assets (continued)

*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.

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 December 31, 2020 and 2019:

	Fair Value Measurements Using			2020 Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments</b>				
Money market funds	\$ 119,611	\$ -	\$ -	\$ 119,611
Mutual/exchange-traded funds	7,887,227	-	-	7,887,227
Common stock	295,684	-	-	295,684
Certificates of deposit	-	816,219	-	816,219
Mortgage- and asset-backed securities	-	343,461	-	343,461
Corporate bonds	-	1,772,741	-	1,772,741
Government bonds	-	401,387	-	401,387
	<u>\$ 8,302,522</u>	<u>\$ 3,333,808</u>	<u>\$ -</u>	<u>\$ 11,636,330</u>
<b>Charitable trusts and charitable gift annuities</b>				
Money market funds	\$ 6,010	\$ -	\$ -	\$ 6,010
Mutual funds	154,522	-	-	154,522
Certificates of deposit	-	20,529	-	20,529
Government bonds	-	16,272	-	16,272
	<u>\$ 160,532</u>	<u>\$ 36,801</u>	<u>\$ -</u>	<u>\$ 197,333</u>

## The Memorial Foundation Notes to Financial Statements

### Note 6 – Fair Value of Assets (continued)

	Fair Value Measurements Using			2019 Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments</b>				
Money market funds	\$ 82,425	\$ -	\$ -	\$ 82,425
Mutual/exchange-traded funds	6,749,504	-	-	6,749,504
Common stock	273,850	-	-	273,850
Certificates of deposit	-	1,127,694	-	1,127,694
Mortgage- and asset-backed securities	-	746,283	-	746,283
Corporate bonds	-	1,626,480	-	1,626,480
	<u>\$ 7,105,779</u>	<u>\$ 3,500,457</u>	<u>\$ -</u>	<u>\$ 10,606,236</u>
<b>Charitable trusts and charitable gift annuities</b>				
Money market funds	\$ 4,428	\$ -	\$ -	\$ 4,428
Mutual funds	144,253	-	-	144,253
Certificates of deposit	-	20,491	-	20,491
Corporate bonds	-	21,718	-	21,718
	<u>\$ 148,681</u>	<u>\$ 42,209</u>	<u>\$ -</u>	<u>\$ 190,890</u>

### Note 7 – 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 donor-restricted funds established for general purposes. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

**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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

## The Memorial Foundation

### Notes to Financial Statements

---

#### Note 7 – Endowment (continued)

In accordance with UPMIFA, the Foundation will consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net assets consist of the following at December 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment funds	\$ -	\$ 707,255	\$ 707,255

Endowment net assets consist of the following at December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment funds	\$ -	\$ 667,755	\$ 667,755

## The Memorial Foundation Notes to Financial Statements

### Note 7 – Endowment (continued)

Changes in endowment net assets for the years ended December 31, 2020 and 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2020	\$ -	\$ 667,755	\$ 667,755
Investment return			
Investment income	-	10,893	10,893
Net appreciation	-	28,607	28,607
Total investment return	-	39,500	39,500
Contributions	-	-	-
Net assets released	-	-	-
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 707,255</u>	<u>\$ 707,255</u>
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ -	\$ 611,032	\$ 611,032
Investment return			
Investment income	-	14,208	14,208
Net depreciation	-	42,515	42,515
Total investment (loss)	-	56,723	56,723
Contributions	-	-	-
Net assets released	-	-	-
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 667,755</u>	<u>\$ 667,755</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). The Foundation has interpreted UPMIFA to permit spending from endowment funds with deficits of this nature in accordance with prudent measures required under law. There were no such deficits as of December 31, 2020 and 2019.

# The Memorial Foundation

## Notes to Financial Statements

---

### Note 7 – 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 8 – Related-Party Transactions

The Foundation receives contributions and pledges from members of the Board of Trustees. Total contributions from these members during the years ended December 31, 2020 and 2019, totaled \$192,697 and \$79,211, respectively. At December 31, 2020 and 2019, support receivable from members of the Board of Trustees totaled \$40,000 and \$57,840, respectively.

The Hospital paid \$413,512 and \$323,142 of expenses on behalf of the Foundation during 2020 and 2019, respectively. These expenses are recorded on the statements of activities. The Hospital has agreed to make a contribution to the Foundation equivalent to the amount of these expenses. The contribution is included in donations on the statement of activities.

## The Memorial Foundation Notes to Financial Statements

---

### Note 9 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, comprise the following as of December 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 389,527	\$ 537,435
Investments	<u>3,923,796</u>	<u>3,032,138</u>
	<u>\$ 4,313,323</u>	<u>\$ 3,569,573</u>

The Foundation invests cash in excess of daily requirements in U.S. government securities and other short-term investments, certificates of deposit, and money market funds.

### Note 10 – Commitments and Risks and Uncertainties

The Foundation is named as a designated affiliate in the master indenture for the Hospital's Washington Health Care Facilities Authority Revenue Bonds, Series 2016. As a designated affiliate and a part of the obligated group, the Foundation guarantees the related debt which has an outstanding balance as of December 31, 2020 and 2019, of \$33,404,420 and \$33,423,960, respectively.

During the year ended December 31, 2020, the Foundation's investment portfolio has incurred market volatility in fair value due to the COVID-19 outbreak. The values of the Foundation's individual investments have and will fluctuate in response to changing market conditions. The full impact of the COVID-19 pandemic outbreak continues to evolve as of the date of this report.



