

ISLAND HOSPITAL FOUNDATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2017 AND 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**ISLAND HOSPITAL FOUNDATION
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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Island Hospital Foundation
Anacortes, Washington

Report on the Financial Statements

We have reviewed the accompanying financial statements of Island Hospital Foundation (the Foundation) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

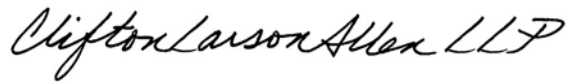
Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The accompanying the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Bellevue, Washington
October 1, 2018

ISLAND HOSPITAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
ASSETS				
Cash and Cash Equivalents	\$ 118,632	\$ 167,895	\$ -	\$ 286,527
Pledges Receivable	-	2,000	-	2,000
Other Receivables	61,315	7,564	-	68,879
Investments	2,286,615	64,468	201,000	2,552,083
Prepaid Expenses	500	-	-	500
Total Assets	\$ 2,467,062	\$ 241,927	\$ 201,000	\$ 2,909,989
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	\$ 2,545	\$ -	\$ -	\$ 2,545
NET ASSETS	2,464,517	241,927	201,000	2,907,444
Total Liabilities and Net Assets	\$ 2,467,062	\$ 241,927	\$ 201,000	\$ 2,909,989
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	\$ 216,486	\$ 119,387	\$ -	\$ 335,873
Pledges Receivable	7,000	5,000	-	12,000
Other Receivables	3,034	641	-	3,675
Investments	2,009,477	45,059	201,000	2,255,536
Total Assets	\$ 2,235,997	\$ 170,087	\$ 201,000	\$ 2,607,084
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	\$ 851	\$ -	\$ -	\$ 851
NET ASSETS	2,235,146	170,087	201,000	2,606,233
Total Liabilities and Net Assets	\$ 2,235,997	\$ 170,087	\$ 201,000	\$ 2,607,084

See accompanying Notes to Financial Statements.

ISLAND HOSPITAL FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 156,003	\$ 616,488	\$ -	\$ 772,491
Contributions - Noncash	-	56,349	-	56,349
Contributions - In-Kind	129,530	-	-	129,530
Special Events	428,324	-	-	428,324
Dividends and Interest Income	75,016	4,668	-	79,684
Realized Loss	63,150	-	-	63,150
Unrealized Gain	144,539	23,008	-	167,547
Total	<u>996,562</u>	<u>700,513</u>	<u>-</u>	<u>1,697,075</u>
Net Assets Released from Restrictions	628,673	(628,673)	-	-
Total Revenue and Support	<u>1,625,235</u>	<u>71,840</u>	<u>-</u>	<u>1,697,075</u>
EXPENSES				
Program Expenses	1,142,581	-	-	1,142,581
Fundraising Expenses	189,538	-	-	189,538
General and Administrative Expenses	64,057	-	-	64,057
Total Expenses	<u>1,396,176</u>	<u>-</u>	<u>-</u>	<u>1,396,176</u>
CHANGES IN NET ASSETS	229,059	71,840	-	300,899
Net Assets - Beginning of Year	<u>2,235,458</u>	<u>170,087</u>	<u>201,000</u>	<u>2,606,545</u>
NET ASSETS - END OF YEAR	<u>\$ 2,464,517</u>	<u>\$ 241,927</u>	<u>\$ 201,000</u>	<u>\$ 2,907,444</u>

See accompanying Notes to Financial Statements.

ISLAND HOSPITAL FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 191,258	\$ 400,355	\$ -	\$ 591,613
Contributions - Noncash	-	84,189	-	84,189
Contributions - In-Kind	128,650	-	-	128,650
Special Events	396,110	-	-	396,110
Dividends and Interest Income	70,841	4,139	-	74,980
Realized Loss	(10,641)	-	-	(10,641)
Unrealized Loss	106,552	13,202	-	119,754
Total	<u>882,770</u>	<u>501,885</u>	<u>-</u>	<u>1,384,655</u>
Net Assets Released from Restrictions	428,683	(428,683)	-	-
Total Revenue and Support	<u>1,311,453</u>	<u>73,202</u>	<u>-</u>	<u>1,384,655</u>
EXPENSES				
Program Expenses	773,798	-	-	773,798
Fundraising Expenses	285,295	-	-	285,295
General and Administrative Expenses	78,292	-	-	78,292
Total Expenses	<u>1,137,385</u>	<u>-</u>	<u>-</u>	<u>1,137,385</u>
CHANGES IN NET ASSETS	174,068	73,202	-	247,270
Net Assets - Beginning of Year	<u>2,061,078</u>	<u>96,885</u>	<u>201,000</u>	<u>2,358,963</u>
NET ASSETS - END OF YEAR	<u>\$ 2,235,146</u>	<u>\$ 170,087</u>	<u>\$ 201,000</u>	<u>\$ 2,606,233</u>

See accompanying Notes to Financial Statements.

ISLAND HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2017	2016
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in Net Assets	\$ 300,899	\$ 247,270
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Net Unrealized and Realized Gain on Investments	(230,697)	(109,113)
Changes in Operating Assets and Liabilities:		
Pledges Receivable	10,000	22,500
Other Receivables	(65,204)	(3,675)
Prepaid Expenses	(500)	-
Accounts Payable	1,694	(13,048)
Net Cash Provided by Operating Activities	16,192	143,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(175,338)	(137,481)
Proceeds from Maturities of Investments	109,800	73,020
Net Cash Used by Investing Activities	(65,538)	(64,461)
CHANGES IN CASH AND CASH EQUIVALENTS	(49,346)	79,473
Cash and Cash Equivalents - Beginning of Year	335,873	256,400
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 286,527	\$ 335,873

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Island Hospital Foundation (the Foundation) is a nonprofit entity incorporated in March 1978, under the laws of the state of Washington. The Foundation was initially formed to support community health and services in the area served by the Skagit County Hospital District No. 2 doing business as Island Hospital (the Hospital).

Nature of Operations and Services Provided

The mission of the Foundation is to raise funds to support the Hospital and its commitment to community health. The Foundation was chartered to further support the Hospital's statutory purposes set forth in RCW 70.44, which include undertaking community health projects for the benefit of the residents of the Hospital. The Foundation attracts, manages, and distributes the income from gifts of capital for the betterment of the Hospital. The Foundation's major sources of revenue include individual and corporate contributions, private donations, and revenue associated with fundraising events.

Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted – Unrestricted net assets are funds controlled and designated by the board of directors that include the general, operating, and equipment accounts.

Temporarily Restricted – Temporarily restricted net assets are controlled by law or donor-imposed restrictions that allow the use of the assets as specified either by the passage of time or by actions of the Foundation. At December 31, 2017 and 2016, temporarily restricted net assets of \$241,927 and \$170,087, respectively represented the earnings from permanently restricted net assets and contributions and pledges made for a specific purpose.

Permanently Restricted – Permanently restricted net assets are controlled by law or donor-imposed restrictions that require such assets be maintained in perpetuity. At December 31, 2017 and 2016, permanently restricted net assets of \$201,000 were restricted to investment in perpetuity, the income from which is expendable for community health needs as identified by the Hospital and health needs for the benefit of the Obstetrics department at the hospital, once the income is appropriated for expenditure.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments, with an initial maturity of three months or less, to be cash equivalents. The Foundation maintains its cash and cash equivalent accounts at financial institutions in amounts that, at times, may exceed federally insured limits.

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

The Foundation carries the long-term portion of pledges receivable at present value using an appropriate discount rate.

Other Receivables

Other receivables represent amounts to donations are stated at the amounts management expects to collect from the outstanding balances.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence and/or nature of any donor restrictions. All noncash contributions are recorded as temporarily restricted as they are all for use in the fundraising auction.

Contributions – In-Kind

Contributed goods and services are recorded at rates that would have been paid for similar goods and services if purchased. Donation's in-kind reported in the statement of activities and changes in net assets are all from related parties. See Note 4 for additional information.

Income Taxes

As a charitable foundation, Island Hospital Foundation is a nonprofit corporation as defined in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a).

The Foundation has accounted for uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and was reasonably estimable. As of December 31, 2017 and 2016, the Foundation had not identified any uncertain tax positions requiring accrual or disclosure.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs associated with the Foundation's program and supporting services have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications have no effect on the reported results of operations.

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be 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 statement of financial position, 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 statement of financial position but arose after the statement of financial position date and before the financial statements are issued.

The Foundation has evaluated subsequent events through October 1, 2018, which is the date the financial statement were available to be issued.

NOTE 2 FAIR VALUE MEASUREMENTS

The Foundation classifies its investments based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Cash and cash equivalents are valued based net asset value and are presented here for the purpose of reconciling to the total investments.

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position 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, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual Funds:				
Value Funds	\$ 886,543	\$ -	\$ -	\$ 886,543
Blend Funds	224,367	-	-	224,367
International Funds	373,303	-	-	373,303
Growth Funds	169,096	-	-	169,096
Real Estate Funds	56,444	-	-	56,444
Fixed Income:				
Municipal Bonds	816,504	-	-	816,504
Subtotal	2,526,257	-	-	2,526,257
Cash and Cash Equivalents				25,826
Total Investments	\$ 2,526,257	\$ -	\$ -	\$ 2,552,083

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual Funds:				
Value Funds	\$ 814,415	\$ -	\$ -	\$ 814,415
Blend Funds	206,691	-	-	206,691
International Funds	259,576	-	-	259,576
Growth Funds	143,578	-	-	143,578
Real Estate Funds	103,010	-	-	103,010
Fixed Income:				
Municipal Bonds	706,969	-	-	706,969
Subtotal	2,234,239	-	-	2,234,239
Cash and Cash Equivalents				21,297
Total Investments	\$ 2,234,239	\$ -	\$ -	\$ 2,255,536

NOTE 3 PLEDGES RECEIVABLE

The Foundation has unconditional written promises to give in the amount of \$2,000 as of December 31, 2017. The following table represents the amount due within the next five years.

	Amount Due
Less than One Year	\$ 2,000

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 4 RELATED PARTY

The Foundation exists for the purpose of providing assistance to the Hospital to aid it in the delivery of health care services for the residents of Skagit County. Funds are invested and proceeds are used as directed by the donors.

The Hospital paid \$129,530 and \$128,650 of expenses on behalf of the Foundation in 2017 and 2016, respectively. Operating expenses paid on behalf of the Foundation by the Hospital represent a contribution to the Foundation; contributions revenue on the statement of activities and changes in net assets was increased accordingly.

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

The Foundation's temporarily restricted net assets comprise donations made to separate funds. Investment income or loss as well as unrealized and realized gains and losses on the endowment are included in the statements of activities as increase or decrease in temporarily restricted net assets. The Foundation had the following temporarily restricted net assets as of December 31:

	2017	2016
Temporary Portion of the Endowment	\$ 64,468	\$ 45,059
New Technology Fund	49,650	50,075
School Mental Health Fund	40,922	14,909
Cancer Care Fund	32,413	6,710
Oncology Medical Relief Fund	23,308	29,204
Birth Center Fund	10,830	325
Other Funds	20,336	23,805
Total Funds	\$ 241,927	\$ 170,087

NOTE 6 ENDOWMENT

The net asset classification of donor-restricted endowment funds for a nonprofit 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. Washington State has enacted a version of UPMIFA effective July 1, 2009.

The Foundation's endowment funds include donor-restricted and board-designated endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 6 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Foundation has interpreted the enacted version of UPMIFA for Washington State that is effective July 1, 2009, 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 classifies 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 as permanently restricted net assets is 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 considers 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 organization and the donor-restricted endowment fund
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

The following shows endowment net assets composition by type of fund as of December 31, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 64,468	\$ 201,000	\$ 265,468
Board-Designated Funds	2,286,615	-	-	2,286,615
Total	\$ 2,286,615	\$ 64,468	\$ 201,000	\$ 2,552,083
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 45,059	\$ 201,000	\$ 246,059
Board-Designated Funds	2,009,477	-	-	2,009,477
Total	\$ 2,009,477	\$ 45,059	\$ 201,000	\$ 2,255,536

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 6 ENDOWMENT (CONTINUED)

The following shows changes in endowment net assets for the year ended December 31, 2017:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets -				
Beginning of Year	\$ 2,009,477	\$ 45,059	\$ 201,000	\$ 2,255,536
Investment Return				
Investment Income	75,016	4,668	-	79,684
Net Appreciation	202,137	23,008	-	225,145
Total	<u>277,153</u>	<u>27,676</u>	<u>-</u>	<u>304,829</u>
Distribution of Endowment Returns	-	(8,282)	-	(8,282)
Endowment Net Assets -				
End of Year	<u>\$ 2,286,630</u>	<u>\$ 64,453</u>	<u>\$ 201,000</u>	<u>\$ 2,552,083</u>

The following shows changes in endowment net assets for the year ended December 31, 2016:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets -				
Beginning of Year	\$ 1,853,244	\$ 27,718	\$ 201,000	\$ 2,081,962
Investment Return				
Investment Income	70,841	4,139	-	74,980
Net Appreciation	82,090	13,202	-	95,292
Total	<u>152,931</u>	<u>17,341</u>	<u>-</u>	<u>170,272</u>
Distribution of Investment Income	3,302	-	-	3,302
Endowment Net Assets -				
End of Year	<u>\$ 2,009,477</u>	<u>\$ 45,059</u>	<u>\$ 201,000</u>	<u>\$ 2,255,536</u>

ISLAND HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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) as well as board-designated funds. Under this policy, as approved by the Foundation board, the endowment assets are invested as follows:

<u>Asset Class</u>	<u>Target</u>
Cash and Equivalents	1%
Large Cap Stock	21%
Small Cap Stock	11%
International Stock	13%
Emerging Markets	7%
Real Estate (REITS)	5%
Balanced	5%
Seattle Northwest Fixed Income	37%

The Foundation expects its endowment funds, over time, to provide an annual return of 8%. 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 to achieve its long-term return objectives within prudent risk constraints.

Performance of the Foundation's investments and the Foundation's investment manager is reviewed by the finance committee and reported to the Foundation's board of directors on at least an annual basis.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The board of directors empowers the investment committee to authorize annual expenditures based on a five-year moving average of the market value of the endowment pool, less fees and implicit consumer price index. The Foundation has a spending rate up to 4% of the unrestricted endowment fund balances for the years ended 2017 and 2016 with majority board approval, or a larger amount for a specified needs with the unanimous approval of the board members voting on this matter.

ISLAND HOSPITAL FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2017 AND 2016
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

Functional expenses for the year ended December 31, 2017 were as follows:

	Program Expenses	General and Administrative Expenses	Fundraising Expenses	Total
In-Kind Contributions of Services	\$ 22,344	\$ 37,241	\$ 69,945	\$ 129,530
Noncash Contributions	1,982	-	-	1,982
Contributions Paid to Skagit County Hospital				
District No. 2	1,084,210	-	-	1,084,210
Special Events	-	-	102,671	102,671
Administrative	-	8,364	-	8,364
Professional Fees	-	6,450	-	6,450
Salary Expense	31,947	-	-	31,947
Supplies	2,098	-	-	2,098
Miscellaneous Expense	-	1,412	-	1,412
Investment Management and Bank Fees	-	10,590	-	10,590
Postage, Printing, and Shipping	-	-	16,922	16,922
Total Functional Expenses	<u>\$ 1,142,581</u>	<u>\$ 64,057</u>	<u>\$ 189,538</u>	<u>\$ 1,396,176</u>

Functional expenses for the year ended December 31, 2016 were as follows:

	Program Expenses	General and Administrative Expenses	Fundraising Expenses	Total
In-Kind Contributions of Services	\$ 20,785	\$ 34,641	\$ 73,224	\$ 128,650
Noncash Contributions	31,452	-	52,737	84,189
Contributions Paid to Skagit County Hospital				
District No. 2	694,276	-	-	694,276
Special Events	-	-	140,744	140,744
Administrative	-	11,159	-	11,159
Professional Fees	-	12,705	-	12,705
Salary Expense	24,869	-	-	24,869
Supplies	2,416	-	-	2,416
Miscellaneous Expense	-	927	-	927
Investment Management and Bank Fees	-	18,860	-	18,860
Postage, Printing, and Shipping	-	-	18,590	18,590
Total Functional Expenses	<u>\$ 773,798</u>	<u>\$ 78,292</u>	<u>\$ 285,295</u>	<u>\$ 1,137,385</u>