

Island Hospital Foundation

Anacortes, Washington

Financial Statements

Years Ended December 31, 2018 and 2017

WIPFLI^{LLP}
CPAs and Consultants

Island Hospital Foundation

Years Ended December 31, 2018 and 2017

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Independent Accountant's Review Report

Board of Directors
Island Hospital Foundation
Anacortes, Washington

We have reviewed the accompanying financial statements of Island Hospital Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year 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 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; 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.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. 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. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's 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.

Prior Period Financial Statements

The 2017 financial statements of Island Hospital Foundation were reviewed by other accountants, whose report dated October 1, 2018, stated that, based on their procedures, they are not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP
October 17, 2019
Spokane, Washington

Island Hospital Foundation

Statements of Financial Position

| December 31, | 2018 | | |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Assets: | | | |
| Cash and cash equivalents | \$ 150,733 | \$ 424,059 | \$ 574,792 |
| Pledges receivable | 6,110 | - | 6,110 |
| Investments | 2,149,101 | 199,525 | 2,348,626 |
| Prepaid expenses | 1,500 | - | 1,500 |
| Total assets (current) | \$ 2,307,444 | \$ 623,584 | \$ 2,931,028 |
| Liabilities and net assets: | | | |
| Liabilities - Accounts payable (current) | \$ 61,138 | \$ - | \$ 61,138 |
| Net assets | 2,246,306 | 623,584 | 2,869,890 |
| Total liabilities and net assets | \$ 2,307,444 | \$ 623,584 | \$ 2,931,028 |
| 2017 | | | |
| | 2017 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Assets: | | | |
| Cash and cash equivalents | \$ 118,632 | \$ 167,895 | \$ 286,527 |
| Pledges receivable | 61,315 | 9,564 | 70,879 |
| Investments | 2,286,615 | 265,468 | 2,552,083 |
| Prepaid expenses | 500 | - | 500 |
| Total assets (current) | \$ 2,467,062 | \$ 442,927 | \$ 2,909,989 |
| Liabilities and net assets: | | | |
| Liabilities - Accounts payable (current) | \$ 2,545 | \$ - | \$ 2,545 |
| Net assets | 2,464,517 | 442,927 | 2,907,444 |
| Total liabilities and net assets | \$ 2,467,062 | \$ 442,927 | \$ 2,909,989 |

See Independent Accountant's Review Report.
See accompanying notes to financial statements.

Island Hospital Foundation

Statement of Activities and Changes in Net Assets

| <i>Year Ended December 31,</i> | 2018 | | |
|---|------------------------------|---------------------------|---------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Revenue and support: | | | |
| Contributions | \$ 362,806 | \$ 355,554 | \$ 718,360 |
| Contributions - Noncash | 9,510 | 56,072 | 65,582 |
| Contributions - In-kind | 139,946 | - | 139,946 |
| Special events | 602,092 | - | 602,092 |
| Dividends and interest income | 35,487 | 3,724 | 39,211 |
| Realized gain | 55,435 | - | 55,435 |
| Unrealized loss | (258,554) | (28,996) | (287,550) |
| Total | \$ 946,722 | 386,354 | 1,333,076 |
| Net assets released from donor restriction | 205,697 | (205,697) | - |
| Total revenue and support | 1,152,419 | 180,657 | 1,333,076 |
| Expenses: | | | |
| Program expenses | 1,207,138 | - | 1,207,138 |
| Fundraising expenses | 120,552 | - | 120,552 |
| General and administrative expenses | 42,940 | - | 42,940 |
| Total expenses | 1,370,630 | - | 1,370,630 |
| Change in net assets | (218,211) | 180,657 | (37,554) |
| Net assets - Beginning of year | 2,464,517 | 442,927 | 2,907,444 |
| Net assets - End of year | \$ 2,246,306 | \$ 623,584 | \$ 2,869,890 |

Island Hospital Foundation

Statement of Activities and Changes in Net Assets (Continued)

| Year Ended December 31, | 2017 | | |
|---|------------------------------|---------------------------|---------------------|
| | Without Donor Restriction | With Donor Restriction | 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 | 69,464 | 4,668 | 74,132 |
| Realized gain | 63,150 | - | 63,150 |
| Unrealized gain | 144,539 | 23,008 | 167,547 |
| Total | 991,010 | 700,513 | 1,691,523 |
| Net assets released from donor restriction | 628,673 | (628,673) | - |
| Total revenue and support | 1,619,683 | 71,840 | 1,691,523 |
| Expenses: | | | |
| Program expenses | 1,142,581 | - | 1,142,581 |
| Fundraising expenses | 189,538 | - | 189,538 |
| General and administrative expenses | 58,505 | - | 58,505 |
| Total expenses | 1,390,624 | - | 1,390,624 |
| Change in net assets | 229,059 | 71,840 | 300,899 |
| Net assets - Beginning of year | 2,235,458 | 371,087 | 2,606,545 |
| Net assets - End of year | \$ 2,464,517 | \$ 442,927 | \$ 2,907,444 |

See Independent Accountant's Review Report.
See accompanying notes to financial statements.

Island Hospital Foundation

Statements of Cash Flows

| <i>Years Ended December 31,</i> | 2018 | 2017 |
|---|-------------------|-------------------|
| Reconciliation of change in net assets to net cash provided by operating activities: | | |
| Change in net assets | \$ (37,554) | \$ 300,899 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net unrealized and realized loss (gain) on investments | 232,115 | (230,697) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | 64,769 | 10,000 |
| Other receivables | - | (65,204) |
| Prepaid expenses | 1,000 | (500) |
| Accounts payable | 58,593 | 1,694 |
| Net cash provided by operating activities | 318,923 | 16,192 |
| Cash flows from investing activities: | | |
| Purchase of investments | (94,646) | (175,338) |
| Proceeds from maturities of investments | 63,988 | 109,800 |
| Net cash used in investing activities | (30,658) | (65,538) |
| Increase (decrease) in cash and cash equivalents | 288,265 | (49,346) |
| Cash and cash equivalents - Beginning of year | 286,527 | 335,873 |
| Cash and cash equivalents - End of year | \$ 574,792 | \$ 286,527 |

See Independent Accountant's Review Report.
See accompanying notes to financial statements.

Island Hospital Foundation

Statements of Functional Expenses

| <i>Year Ended December 31,</i> | 2018 | | | |
|--|---------------------|---|-------------------------|---------------------|
| | Program Expenses | General and Administrative Expenses | Fundraising Expenses | Total Expenses |
| In-kind contributions of services | \$ 139,946 | \$ - | \$ - | \$ 139,946 |
| Noncash contributions | 66,355 | - | - | 66,355 |
| Contributions paid to Skagit County Hospital District No. 2 | 947,796 | - | - | 947,796 |
| Contributions and scholarships | 5,144 | - | - | 5,144 |
| Special events | - | - | 112,680 | 112,680 |
| Administrative | 450 | 11,452 | 1,520 | 13,422 |
| Professional fees | - | 6,200 | - | 6,200 |
| Salary expense | 31,868 | 14,647 | - | 46,515 |
| Supplies | 24 | 388 | 255 | 667 |
| Bank fees | 659 | 9,884 | 307 | 10,850 |
| Postage, printing, and shipping | 14,896 | 369 | 5,790 | 21,055 |
| Total functional expenses | \$ 1,207,138 | \$ 42,940 | \$ 120,552 | \$ 1,370,630 |

| <i>Year Ended December 31,</i> | 2017 | | | |
|--|---------------------|---|-------------------------|---------------------|
| | Program Expenses | General and Administrative Expenses | Fundraising Expenses | Total Expenses |
| 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 expenses | - | 1,412 | - | 1,412 |
| Bank fees | - | 5,038 | - | 5,038 |
| Postage, printing, and shipping | - | - | 16,922 | 16,922 |
| Total functional expenses | \$ 1,142,581 | \$ 58,505 | \$ 189,538 | \$ 1,390,624 |

See Independent Accountant's Review Report.
See accompanying notes to financial statements.

Island Hospital Foundation

Notes to Financial Statements

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 Revised Code of Washington (RCW) 70.44, which include undertaking community health projects for the benefit of the residents of the hospital district. 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 follows accounting standards contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers all highly liquid investments without donor restriction, 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.

Pledges Receivable

The Foundation carries pledges receivable at present value using an appropriate discount rate.

Island Hospital Foundation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Contributions

Contributions received are recorded as with donor restricted or without donor restricted support, depending upon the existence and/or nature of any donor restrictions. All noncash contributions are recorded with donor restriction as they are all for use in the fundraising auction.

Contributions and Unconditional Promises to Give

Contributed goods and services are recorded at amounts that would have been paid for similar goods and services if purchased. Contributions in-kind reported in the statement of activities and changes in net assets are all from related parties. See Note 5 for additional information.

Investment Management Expenses

Investment management fees are netted against dividends and interest income on the statements of activities.

Income Taxes

As a charitable foundation, the 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 evaluated 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, 2018 and 2017, the Foundation had not identified any uncertain tax positions requiring accrual or disclosure.

Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these 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.

Island Hospital Foundation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Policy

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958). This ASU provides for certain improvements in financial reporting for not-for-profit organizations and requires changes in net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, and the netting of investment expenses with return, among other changes. The guidance in this ASU is effective for the Foundation's year ended December 31, 2018 and was applied retrospectively to these comparative financial statements. Net assets as of December 31, 2017, were reclassified to reflect the effect of this change. Net assets previously classified as unrestricted were reclassified to net assets without donor restrictions, and net assets previously classified as temporarily or permanently restricted were reclassified to net assets with donor restrictions.

Reclassifications

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

Subsequent Events

Subsequent events have been evaluated through October 17, 2019, which is the date the financial statements were available to be issued.

Island Hospital Foundation

Notes to Financial Statements

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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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 on net asset value and are presented here for the purpose of reconciling to the total investments.

Island Hospital Foundation

Notes to Financial Statements

Note 2: Fair Value Measurements (Continued)

The following tables present the fair value measurements of assets 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, 2018 and 2017:

| | 2018 | | | Total |
|---|---------------------|-------------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments: | | | | |
| Equity: | | | | |
| Mutual funds | \$ 1,055,191 | \$ - | \$ - | \$ 1,055,191 |
| Exchange-traded funds | 487,916 | - | - | 487,916 |
| Fixed income: | | | | |
| Municipal bonds | - | 74,690 | - | 74,690 |
| Corporate bonds | - | 284,929 | - | 284,929 |
| U.S. Government agencies bonds | - | 94,077 | - | 94,077 |
| U.S. Treasuries | - | 331,457 | - | 331,457 |
| Total assets subject to fair value measurement | 1,543,107 | 785,153 | - | 2,328,260 |
| Cash and cash equivalents | - | - | - | 20,366 |
| Total investments | \$ 1,543,107 | \$ 785,153 | \$ - | \$ 2,348,626 |

| | 2017 | | | Total |
|---|---------------------|-------------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments: | | | | |
| Equity: | | | | |
| Mutual funds | \$ 1,253,819 | \$ - | \$ - | \$ 1,253,819 |
| Exchange-traded funds | 455,934 | - | - | 455,934 |
| Fixed income: | | | | |
| Municipal bonds | - | 74,068 | - | 74,068 |
| Corporate bonds | - | 363,132 | - | 363,132 |
| U.S. Government agencies bonds | - | 134,678 | - | 134,678 |
| U.S. Treasuries | - | 244,626 | - | 244,626 |
| Total assets subject to fair value measurement | 1,709,753 | 816,504 | - | 2,526,257 |
| Cash and cash equivalents | - | - | - | 25,826 |
| Total investments | \$ 1,709,753 | \$ 816,504 | \$ - | \$ 2,552,083 |

Island Hospital Foundation

Notes to Financial Statements

Note 3: Liquidity

As part of Foundation's liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. These funds, included in investments, are considered available for operational or capital needs, except for investment vehicles with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. Though these funds, at the discretion of the Board of Directors, could be released immediately, these funds are not considered available under the Foundation's liquidity management policy. Income from donor endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital items, were as follows:

| | |
|--|--------------|
| Cash and cash equivalents | \$ 574,792 |
| Pledges receivable | 6,110 |
| Investments | 2,348,626 |
| <hr/> | |
| Total financial assets | 2,929,528 |
| <hr/> | |
| Less - Those unavailable for general expenditures due to restriction by donors. | (201,000) |
| <hr/> | |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 2,728,528 |
| <hr/> | |

Note 4: Pledges Receivable

The Foundation has unconditional written promises to give in the amount of \$6,110 and \$70,879 at December 31, 2018 and 2017, respectively.

Note 5: Related-Party Transactions

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 \$139,946 and \$129,530 of expenses on behalf of the Foundation in 2018 and 2017, respectively. Operating expenses paid on behalf of the Foundation by the Hospital represent a contribution to the Foundation; contributions revenue on the statements of activities and changes in net assets was increased accordingly.

Island Hospital Foundation

Notes to Financial Statements

Note 6: Net Assets With Donor Restrictions

The Foundation's net assets with donor restrictions comprise donations made to separate funds. Investment income or loss as well as unrealized gains and losses in the endowment are included in the statements of activities as changes in net assets with donor restriction. The Foundation's net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|-------------------------------|-------------------|-------------------|
| Endowment-Perpetual in nature | \$ 201,000 | \$ 201,000 |
| Endowment excess (deficiency) | (1,475) | 64,468 |
| New technology fund | 153,955 | 49,650 |
| School mental health fund | 150,164 | 40,922 |
| Cancer care fund | 32,604 | 32,413 |
| Oncology medical relief fund | 54,355 | 23,308 |
| Birth center fund | 350 | 10,830 |
| Other funds | 32,631 | 20,336 |
| Total funds | \$ 623,584 | \$ 442,927 |

Note 7: 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 GAAP, 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

Note 7: Endowment (Continued)

The Foundation is subject to the UPMIFA and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board of Directors appropriates such amounts for expenditure and any other purpose restrictions have been met. The Board of Directors of the Foundation has interpreted UPMIFA as requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (B) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In addition, 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 Foundation 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

Endowment net asset composition by type of fund was as follows as of December 31, 2018 and 2017:

| | 2018 | | |
|----------------------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | \$ - | \$ 199,525 | \$ 199,525 |
| Board-designated funds | 2,149,101 | - | 2,149,101 |
| Totals | \$ 2,149,101 | \$ 199,525 | \$ 2,348,626 |

| | 2017 | | |
|----------------------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | \$ - | \$ 265,468 | \$ 265,468 |
| Board-designated funds | 2,286,615 | - | 2,286,615 |
| Totals | \$ 2,286,615 | \$ 265,468 | \$ 2,552,083 |

Island Hospital Foundation

Notes to Financial Statements

Note 7: Endowment (Continued)

Changes in endowment net assets were as follows for the year ended December 31, 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|--------------|
| Endowment net assets - Beginning of year | \$ 2,286,615 | \$ 265,468 | \$ 2,552,083 |
| Investment return: | | | |
| Investment income | 49,282 | 3,724 | 53,006 |
| Net depreciation | (203,104) | (28,996) | (232,100) |
| Total | 2,132,793 | 240,196 | 2,372,989 |
| Net distribution of endowment returns | 16,308 | (40,671) | (24,363) |
| Endowment net assets - End of year | \$ 2,149,101 | \$ 199,525 | \$ 2,348,626 |

Changes in endowment net assets were as follows for the year ended December 31, 2017:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|--------------|
| Endowment net assets - Beginning of year | \$ 2,009,462 | \$ 246,059 | \$ 2,255,521 |
| Investment return: | | | |
| Investment income | 75,016 | 4,668 | 79,684 |
| Net appreciation | 207,689 | 23,008 | 230,697 |
| Total | 2,292,167 | 273,735 | 2,565,902 |
| Net distribution of endowment returns | (5,552) | (8,267) | (13,819) |
| Endowment net assets - End of year | \$ 2,286,615 | \$ 265,468 | \$ 2,552,083 |

Island Hospital 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 funds with donor restriction 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's Board, the endowment assets are invested as follows:

| <i>Asset Class</i> | Target |
|--------------------------------|--------|
| Cash and cash 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 |
| Total | 100 % |

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 2018 and 2017 with majority Board approval, or a larger amount for a specified needs with the unanimous approval of the Board members voting on this matter.