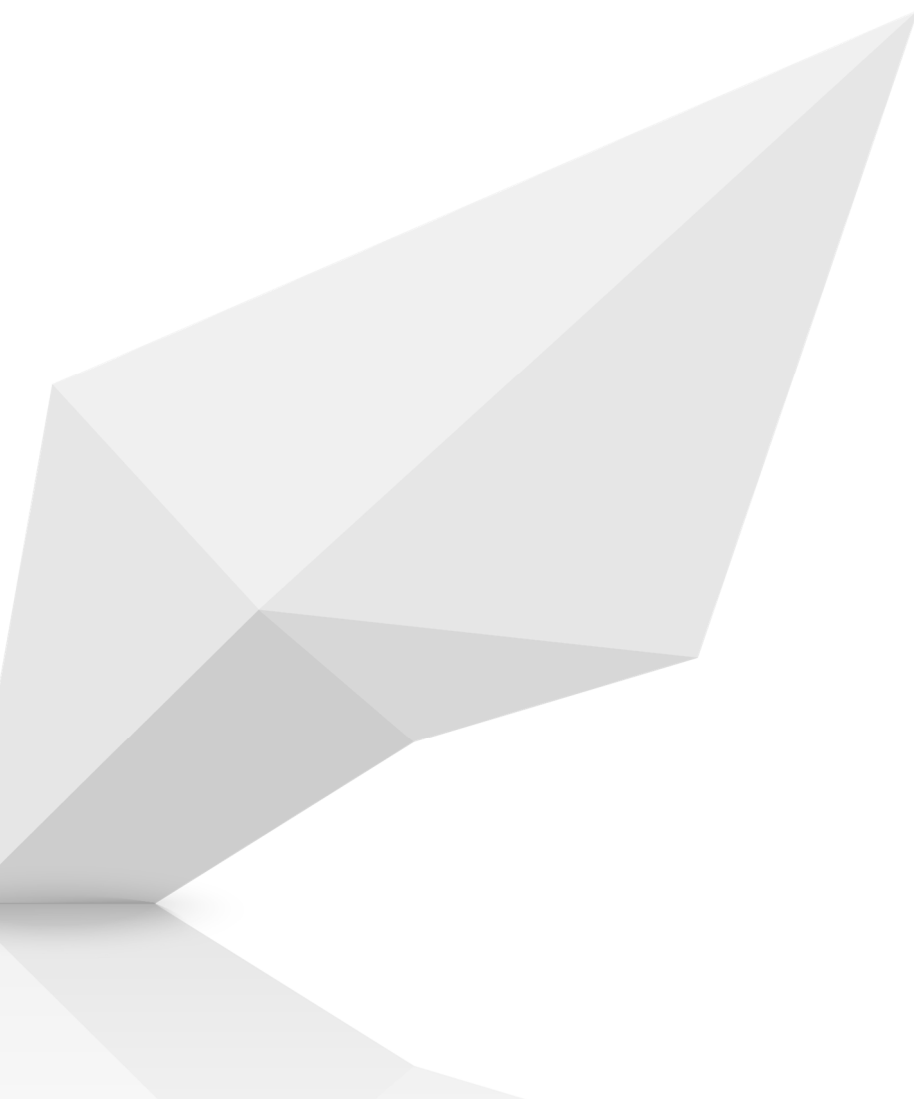


Island Hospital Foundation

Financial Statements

Year Ended December 31, 2019



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Island Hospital Foundation

Year Ended December 31, 2019

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Independent Auditor's Report

Board of Directors
Island Hospital Foundation
Anacortes, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Island Hospital Foundation, which comprise the statement of net position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 Island Hospital Foundation as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP
September 16, 2020
Spokane, Washington

Island Hospital Foundation

Statement of Net Position

<i>December 31, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Assets:			
Cash and cash equivalents	\$ 120,682	\$ 298,650	\$ 419,332
Pledges receivable	3,000	-	3,000
Investments	2,493,303	236,355	2,729,658
Prepaid expenses	1,500	-	1,500
Other current assets	88,100	-	88,100
Total assets (current)	\$ 2,706,585	\$ 535,005	\$ 3,241,590
Liabilities:			
Accounts payable (current)	\$ 70,374	\$ -	\$ 70,374
Net assets:			
With donor restrictions	-	535,005	535,005
Without donor restrictions	2,636,211	-	2,636,211
Total net assets	2,636,211	535,005	3,171,216
Total liabilities and net assets	\$ 2,706,585	\$ 535,005	\$ 3,241,590

Island Hospital Foundation

Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2019</i>	Without Donor Restriction	With Donor Restriction	Total
Revenue and support:			
Contributions	\$ 129,702	\$ 487,213	\$ 616,915
Contributions - Noncash	-	58,132	58,132
Contributions - In-kind	140,520	-	140,520
Special events	888,731	-	888,731
Dividends and interest income	60,498	5,939	66,437
Realized gains	12,523	-	12,523
Unrealized gains	285,537	36,830	322,367
Totals	1,517,511	588,114	2,105,625
Net assets released from donor restriction	676,693	(676,693)	-
Total revenue and support	2,194,204	(88,579)	2,105,625
Expenses:			
Program expenses	1,542,075	-	1,542,075
Fundraising expenses	48,890	-	48,890
General and administrative expenses	213,334	-	213,334
Total expenses	1,804,299	-	1,804,299
Change in net assets	389,905	(88,579)	301,326
Net assets - Beginning of year	2,246,306	623,584	2,869,890
Net assets - End of year	\$ 2,636,211	\$ 535,005	\$ 3,171,216

Island Hospital Foundation

Statement of Functional Expenses

<i>Year Ended December 31, 2019</i>	Program Expenses	General and Administrative Expenses	Fundraising Expenses	Total Expenses
In-kind contributions of services	\$ 140,520	\$ -	\$ -	\$ 140,520
Noncash contributions	-	-	58,241	58,241
Contributions paid to Skagit County Hospital District No. 2	1,336,817	-	-	1,336,817
Contributions and scholarships	16,625	-	-	16,625
Special events	-	-	136,848	136,848
Administrative	787	7,197	1,615	9,599
Professional fees	-	2,750	-	2,750
Salary expense	29,799	18,668	-	48,467
Supplies	24	598	113	735
Endowment fund fees	15,701	11,735	490	27,926
Postage, printing, and shipping	1,802	7,942	16,027	25,771
Total functional expenses	\$ 1,542,075	\$ 48,890	\$ 213,334	\$ 1,804,299

Island Hospital Foundation

Statement of Cash Flows

Year Ended December 31, 2019

Reconciliation of change in net assets to net cash from operating activities:	
Change in net assets	\$ 301,326
Adjustments to reconcile change in net assets to net cash from operating activities:	
Net unrealized and realized gain on investments	(334,890)
Asset donated	(88,100)
Changes in assets and liabilities:	
Pledges receivable	3,110
Accounts payable	9,236
Net cash from operating activities	(109,318)
Cash flows from investing activities:	
Purchase of investments	(454,195)
Proceeds from sale of investments	408,053
Net cash from investing activities	(46,142)
Decrease in cash and cash equivalents	(155,460)
Cash and cash equivalents - Beginning of year	574,792
Cash and cash equivalents - End of year	\$ 419,332

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 Skagit County Hospital District No. 2 doing business as Island Hospital (the "Hospital").

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

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

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions are the net assets of the Foundation that are not restricted and include all net assets whose use has not been restricted by donors or by law. Board designations, which are voluntary Board-approved segregations of net assets for specific purposes, projects, or investments, are also a part of assets without donor restrictions.

Net assets with donor restrictions are subject to donor-imposed stipulations that may or may not be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, net assets with donor restrictions are transferred to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents

For the purpose of the statement 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.

Island Hospital Foundation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Pledges Receivable

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

Contributions

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

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 in the statement of activities and changes in net assets.

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 were considered probable and reasonably estimable. As of December 31, 2019, 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 accounting principles generally accepted in the United States (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 statement of activities and changes 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

On June 21, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU assist in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Subtopic 958-605 or as exchange (reciprocal) transactions subject to Accounting Standards Codification (ASC) 606 and (2) determining whether a contribution is conditional. The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional, which affects the timing of the revenue recognized. The Foundation has adopted this guidance as of January 1, 2019, with no effect on its recognition of contributions made.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic companies for annual periods beginning after December 15, 2019. The Foundation is currently evaluating the impact of the provisions of ASC 606.

Subsequent Events

Subsequent events have been evaluated through September 16, 2020, which is the date the financial statements were available to be issued.

Subsequent to year-end, in March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. There are evolving federal and state regulatory requirements and laws that will affect the Foundation's operations as a result of the pandemic, and as such, the Foundation is incorporating processes to comply with the evolving regulatory requirements and laws. At this time, it is unclear what prolonged economic impact COVID-19 will have on the Foundation's operations.

Island Hospital Foundation

Notes to Financial Statements

Note 2: Fair Value Measurements

The Foundation classifies its investments based on 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 - Quoted prices for identical instruments in active markets
- Level 2 - Quoted prices for similar instruments in markets that are not active and model-derived valuations whose inputs are observable
- Level 3 - Instruments whose significant value drivers are 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 carrying value and are presented here for the purpose of reconciling to the total investments.

Fair value measurement of assets consisted of the following at December 31, 2019:

	Level 1	Level 2	Level 3	Total
Investments:				
Equity:				
Mutual funds	\$ 1,263,456	\$ -	\$ -	\$ 1,263,456
Exchange-traded funds	640,129	-	-	640,129
Fixed income:				
Municipal bonds	-	40,482	-	40,482
Corporate bonds	-	316,317	-	316,317
U.S. government agency bonds	-	158,797	-	158,797
U.S. Treasuries	218,867	-	-	218,867
Mortgage-backed securities	-	81,174	-	81,174
Total assets subject to fair value measurement	2,122,452	596,770	-	2,719,222
Cash and cash equivalents	10,436	-	-	10,436
Total investments	\$ 2,132,888	\$ 596,770	\$ -	\$ 2,729,658

Island Hospital Foundation

Notes to Financial Statements

Note 2: Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Exchange-traded funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Bonds and mortgage-backed securities: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available for comparable securities of issuers with similar credit ratings.

U.S. Treasuries: Valued using quotes from pricing vendors based on recent trading activity and other observable data.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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 could be released immediately at the discretion of the Board of Directors, 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.

Island Hospital Foundation

Notes to Financial Statements

Note 3: Liquidity (Continued)

Financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital items, were as follows at December 31, 2019:

Cash and cash equivalents	\$	419,332
Pledges receivable		3,000
Investments		2,729,658
<hr/>		
Total financial assets		3,151,990
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Less - Amounts restricted by donors		(535,005)
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Financial assets available to meet cash needs for general expenditures within one year	\$	2,616,985
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Note 4: Pledges Receivable

The Foundation had unconditional written promises to give in the amount of \$3,000 at December 31, 2019.

Note 5: Related-Party Transactions

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

The Hospital paid \$140,520 of expenses on behalf of the Foundation in 2019. Operating expenses paid on behalf of the Foundation by the Hospital represent a contribution to the Foundation, and contributions revenue on the statement of activities and changes in net assets was increased accordingly.

Note 6: Net Assets With Donor Restrictions

The Foundation's net assets with donor restrictions comprise donations made to separate funds. Investment income or losses as well as unrealized gains and losses in the endowment are included in the statement of activities and changes in net assets with donor restriction.

Island Hospital Foundation

Notes to Financial Statements

Note 6: Net Assets With Donor Restrictions (Continued)

The Foundation's net assets with donor restrictions are restricted for the following purposes as of December 31, 2019:

Endowment - Perpetual in nature	\$	201,000
Endowment excess		35,355
School mental health fund		215,438
Oncology medical relief fund		82,653
Other funds		559
<hr/>		
Total funds	\$	535,005

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.

The Foundation is subject to 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.

Island Hospital Foundation

Notes to Financial Statements

Note 7: Endowment (Continued)

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 at December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 236,355	\$ 236,355
Board-designated funds	2,493,303	-	2,493,303
Totals	\$ 2,493,303	\$ 236,355	\$ 2,729,658

Changes in endowment net assets were as follows at December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 2,149,101	\$ 199,525	\$ 2,348,626
Investment return:			
Investment income	60,498	5,939	66,437
Net appreciation	298,060	36,830	334,890
Totals	2,507,659	242,294	2,749,953
Net distribution of endowment returns	(14,356)	(5,939)	(20,295)
Endowment net assets - End of year	\$ 2,493,303	\$ 236,355	\$ 2,729,658

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 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>	<i>Target</i>
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.

Spending Policy and Strategies Employed for Achieving Objectives

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 endowment fund balances without donor restrictions for the year ended 2019 with majority Board approval or a larger amount for a specified needs with the unanimous approval of the Board.

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.