the VMC foundation

Helping Silicon Valley Care

Financial Statements
December 31, 2013 and 2012

Together with
Independent Auditors' Report

VMC FOUNDATION

Table of Contents

December 31, 2013

Robert Lee & Associates, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
VMC Foundation
San Jose, CA

We have audited the accompanying financial statements of VMC Foundation, ("VMC Foundation" or "Foundation), a California nonprofit public benefit corporation, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

226 Airport Parkway, Suite 350 San Jose, CA 95110 www.rlallp.com Office: 408.855.6770 Fax: 408.855.6774

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
VMC Foundation
San Jose, CA

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VMC Foundation as of December 31, 2013 and 2012, 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.

Robert Lee + Associates, LLP

San Jose, California
June 16, 2014

VMC FOUNDATION

Statements of Financial Position

		December 31, 2013		December 31, 2012
ASSETS				
Cash and cash equivalents	$	1,716,319	$	831,262
Pledges receivable		3,404,238		4,223,074
Accounts receivable		241,066		225,062
Prepaid expenses		35,474		19,822
Inventory		18,372		15,384
Investments		2,876,039		3,262,832
Cash surrender value of life insurance		45,237		7,116
Investments restricted for permanent endowment		10,000		10,000
Property and equipment, net		13,920		21,033
Total assets	$	8,360,665	$	8,615,585
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	$	411,855	$	136,393
Grants payable		-		50,000
Deferred grants		259,606		259,619
Deferred revenue		15,000		-
Total liabilities		686,461		446,012
Net assets:				
Unrestricted		620,076		533,076
Temporarily restricted		7,044,128		7,626,497
Permanently restricted		10,000		10,000
Total net assets		7,674,204		8,169,573
Total liabilities and net assets	$	8,360,665	$	8,615,585

The accompanying notes are an integral part of these consolidated financial statements

VMC FOUNDATION
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE AND SUPPORT				
Grants received	$ 151,610	$ 2,696,456	$ -	$ 2,848,066
Contributions	926,724	916,048	-	1,842,772
Service fees	502,403	-	-	502,403
Contributions in-kind	83,450	30,894	-	114,344
Special events, net	100,450	-	-	100,450
Investment income	152,147	41	-	152,188
Sale of merchandise, net	43,813	-	-	43,813
Gain on life insurance	38,121	-	-	38,121
Net assets released from restriction	4,225,808	(4,225,808)	-	-
Total revenue and support	6,224,526	(582,369)	-	5,642,157
EXPENSES				
Program services	4,963,178	-	-	4,963,178
Supporting services:				
Management and General	270,557	-	-	270,557
Fundraising	903,791	-	-	903,791
Total expenses	6,137,526	-	-	6,137,526
Change in net assets	87,000	(582,369)	-	(495,369)
Net assets, beginning of year	533,076	7,626,497	10,000	8,169,573
Net assets, end of year	$ 620,076	$ 7,044,128	$ 10,000	$ 7,674,204

The accompanying notes are an integral part of these consolidated financial statements

VMC FOUNDATION

Statement of Activities and Changes in Net Assets (continued)

For the Year Ended December 31, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE AND SUPPORT				
Grants received	$ 42,500	$ 2,902,865	$ -	$ 2,945,365
Contributions	322,104	923,856	-	1,245,960
Service fees	652,395	-	-	652,395
Contributions in-kind	584,776	25,731	-	610,507
Special events, net	164,061	-	-	164,061
Investment income	126,414	862	-	127,276
Sale of merchandise, net	54,168	-	-	54,168
Net assets released from restriction	4,765,164	(4,765,164)	-	-
Total revenue and support	6,711,582	(911,850)	-	5,799,732
EXPENSES				
Program services	5,936,647	-	-	5,936,647
Supporting services:				
Management and General	270,905	-	-	270,905
Fundraising	752,902	-	-	752,902
Total expenses	6,960,454	-	-	6,960,454
Change in net assets	(248,872)	(911,850)	-	(1,160,722)
Net assets, beginning of year	891,295	8,429,000	10,000	9,330,295
Net assets, end of year	$ 642,423	$ 7,517,150	$ 10,000	$ 8,169,573

The accompanying notes are an integral part of these consolidated financial statements

VMC FOUNDATION

Statement of Functional Expenses

For the Year Ended December 31, 2013

	Program services	General and Management	Fundraising	Total Support services	Total Program and Support services
Expenses:					
Assistance to U.S. Entities	$ 3,189,220	$ -	$ -	$ -	$ 3,189,220
Salaries and wages	448,112	112,850	545,004	657,854	1,105,966
Employee benefits	28,236	3,466	37,505	40,971	69,207
Payroll taxes	29,915	13,532	33,965	47,497	77,412
Pension	-	27,970	-	27,970	27,970
Management and contractors fees	577,340	2,430	34,090	36,520	613,860
Conference, events and meetings	312,494	3,392	10,655	14,047	326,541
Advertising and promotions	53,013	-	114,242	114,242	167,255
In-kind expenses	69,355	6,801	38,188	44,989	114,344
Travel	75,502	69	5,094	5,163	80,665
Computer expenses	47,798	1,377	11,818	13,195	60,993
Office expense and supplies	32,815	4,413	9,065	13,478	46,293
Staff training and recognition	44,063	1,400	367	1,767	45,830
Printing	2,725	1,979	40,099	42,078	44,803
Insurance	6,376	32,827	2,077	34,904	41,280
Accounting fees	1,250	31,461	937	32,398	33,648
Bank and investment fees	12,585	18,168	672	18,840	31,425
Postage	839	1,016	16,843	17,859	18,698
Other expenses	11,350	133	3,170	3,303	14,653
Bad debt	12,000	-	-	-	12,000
Legal	8,190	160	-	160	8,350
Depreciation	-	7,113	-	7,113	7,113
Total expenses	$ 4,963,178	$ 270,557	$ 903,791	$ 1,174,348	$ 6,137,526

The accompanying notes are an integral part of these consolidated financial statements

VMC FOUNDATION

Statement of Functional Expenses (continued)

For the Year Ended December 31, 2012

	Program Services	General and Management	Fundraising	Total Support Services	Total Program and Support Services
Expenses:					
Assistance to U.S. Entities	$ 4,244,026	$ -	$ -	$ -	$ 4,244,026
Salaries and wages	261,166	70,913	216,023	286,936	548,102
In-kind wages	139,557	44,316	295,721	340,037	479,594
Employee benefits	23,724	2,162	28,661	30,823	54,547
Payroll taxes	13,199	18,567	10,859	29,426	42,625
Pension	-	15,046	-	15,046	15,046
Management fees	571,016	2,624	2,500	5,124	576,140
Conference, events and meetings	279,156	3,497	1,994	5,491	284,647
Advertising and promotions	139,390	21	98,031	98,052	237,442
In-kind expenses	92,576	6,803	31,534	38,337	130,913
Travel	65,749	843	2,832	3,675	69,424
Computer expenses	24,438	1,125	14,666	15,791	40,229
Office expense and supplies	22,862	5,447	9,203	14,650	37,512
Staff training and recognition	21,855	2,079	2,346	4,425	26,280
Printing	17,624	2,466	3,301	5,767	23,391
Insurance	457	32,879	-	32,879	33,336
Accounting fees	878	39,180	809	39,989	40,867
Bank and investment fees	11,473	14,240	1,141	15,381	26,854
Postage	1,141	45	12,586	12,631	13,772
Other expenses	18,392	500	2,675	3,175	21,567
Legal	6,720	287	20	307	7,027
Depreciation	-	7,113	-	7,113	7,113
Total expenses	$ 5,955,399	$ 270,153	$ 734,902	$ 1,005,055	$ 6,960,454

The accompanying notes are an integral part of these consolidated financial statements

VMC FOUNDATION
Statements of Cash Flows

	For the Year Ended December 31, 2013	2012
Cash flows from operating activities:		
Change in net assets	$ (495,369)	$ (1,160,722)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net unrealized gains on investments	(70,249)	(70,552)
Net realized gains on investments	(53,527)	(16,400)
Depreciation	7,113	7,113
Increase in cash surrender value of life insurance	(38,121)	-
Changes in operating assets and liabilities:		
Pledges receivable	894,515	2,465,422
Accounts receivable	(91,683)	125,838
Prepaid expenses	(15,652)	(875)
Inventory	(2,988)	(1,334)
Accounts payable and accrued liabilities	275,462	(151,606)
Grants payable	(50,000)	(127,895)
Deferred grants	(13)	(137,546)
Deferred revenue	15,000	-
Net cash provided by operating activities	374,488	931,443
Cash flows from investing activities:		
Acquisition of property and equipment	-	(28,146)
Acquisition of investments	(486,981)	(3,995,561)
Proceeds from sales of investments	997,550	3,133,333
Net cash provided (used) by investing activities	510,569	(890,374)
Increase in cash and cash equivalents	885,057	41,069
Cash and cash equivalents, beginning of year	831,262	790,193
Cash and cash equivalents, end of year	$ 1,716,319	$ 831,262

The accompanying notes are an integral part of these consolidated financial statements

VMC FOUNDATION
Notes to the Financial Statements

Note 1 - Organization and operations:

The Valley Medical Center Foundation ("VMC Foundation" or the "Foundation") is an independent community-driven 501(c)(3) public benefit corporation that enhances community health and related human service needs via the Santa Clara Valley Health and Hospital System (SCVHHS), which includes Valley Medical Center (VMC). In an effort to expand, enhance and improve existing services, VMC Foundation supports services and programs that are under-funded by other revenue streams and that serve the most needy in Silicon Valley. The following are VMC Foundation's major program:

A campaign to support the "New VMC" - In late 2008, with the passage of Measure A on the November ballot, VMC began plans to replace seismically outdated portions of the main hospital. The VMC Foundation at once began planning for an ambitious, multi-year capital campaign to outfit the new building with equipment and technology needs. The new "Sobrato Pavilion," as it is now called, will open in 2015.

A campaign to support a Women & Children's center - The opening of the Sobrato Pavilion (see above) will allow the current main hospital to be re-purposed as a center focusing on women and children's care. The VMC Foundation is raising funds to provide this building an artistic/aesthetic upgrade befitting a free-standing women/children's hospital (San Jose is currently the largest city in the United States without one). This multi-year effort will likely be the largest project the VMC Foundation has ever undertaken.

Diabetes treatment and prevention - Diabetes is a serious and growing issue in Silicon Valley, especially for children. VMC Foundation is raising funds to expand education and outreach programs, as well as to diagnose the estimated one in three diabetic residents of Santa Clara County who have the disease but do not know it.

Farmers market - The VMC Foundation implemented a farmers market on the campus of Valley Medical Center for the benefit of patients and staff. Running May through November, it is now contributing to healthier diets, which supports a major public health initiative championed by the county Board of Supervisors.

Spinal cord and brain injury rehabilitation - Securing grants and gifts to enhance the world-class care provided by VMC's SCI/TBI Unit is a major priority, since doing so not only helps patients obtain the best treatment for these kinds of injuries, but also helps attract patients with private insurance. This program benefits VMC financially beyond what philanthropy alone can do.

Turning Wheels for Kids - The VMC Foundation ensures that children of low income families can have a brand-new bicycle, promoting outdoor exercise and battling the epidemic of childhood obesity. For the year ended December 31, 2013 and 2012, the volunteers who run this inspiring program bought, built and gave more than 3,600 and 3,200 bikes to children in Silicon Valley, respectively.

Note 1 - Organization and operations (continued):

Neonatal Intensive Care Unit (NICU) support **-** VMC's NICU provides the highest level of care to hundreds of tiny, premature infants each year. VMC Foundation, with the help of First 5, Rotary Clubs in Silicon Valley and other philanthropists, provide technology and social service support to these babies and families.

Education and issue advocacy **-** The VMC Foundation is one of the only methods that Santa Clara County's public health and hospital system has to promote the excellent and essential services it provides to all residents of the county, regardless of ability to pay. Public knowledge of these services, many of which are provided by VMC and no other hospital in the Bay Area, can have policy implications. For this reason, VMC Foundation is dedicated to supporting community education and outreach about VMC's services, how local and national policy changes may affect the health system(s), and how increased understanding of VMC's role in caring for the community can drive donations, political support, and public perception.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflects all significant receivables and payables and other liabilities.

Basis of presentation - In accordance with generally accepted accounting principles (GAAP), the Foundation reports information regarding its financial position and activities according to three classes of net assets:

- *Unrestricted net assets* are available to support all activities of the Foundation without restrictions and include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* represent contributions whose use is limited to donor-imposed stipulations that expire through the passage of time or other restrictions and for which the applicable restriction was not met as of the end of the current fiscal period.
- *Permanently restricted net assets* are restricted by the donor for investment in perpetuity, such as endowments. The income from such invested assets is available to support the activities of the Foundation.

Use of estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, 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 these estimates under different assumptions or conditions.

VMC FOUNDATION
Notes to the Financial Statements

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition - Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Donated materials and services - Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are proved by individuals processing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in the related functional expense category. In addition, a number of volunteers have donated their time to program and support services. These contributions in-kind are not reflected in the financial statements since these services do not meet the criteria for recognition.

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated, based on estimates of time, space, and other factors, among the classifications.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. The Foundation considers all unrestricted highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. The carrying amount in the Statements of Financial Position approximates fair value.

Pledges receivables - Pledges receivable are either unconditional or conditional. Unconditional pledges receivable are pledges that depend only on the passage of time or the demand by the promisor for performance. A conditional pledge receivable is a pledge that depends on the occurrence of a specified future and uncertain event to bind the promisor. Unconditional pledges receivable represent the remaining pledges due from the donors who have pledged funds to the Foundation for use in its programs. There were no conditional promises for the years ended December 31, 2013 and 2012.

Promises to give that are expected to be collected after one year are reported at fair value based on the collectability of the pledge and the timing of the expected cash flows. An allowance reserve for uncollectible pledges has been established based on management's best estimates. The financial statements reflect pledges receivable net of the discount and allowance reserve, if any.

Note 2 - Summary of significant accounting policies (continued):

Accounts receivable - Accounts receivable consist of receivables relating to the normal course of business. Accounts receivable are carried at invoice amount less an estimate made for doubtful receivables. The Foundation uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific receivables. There was no allowance as of December 31, 2013 and 2012.

Prepaid expenses - The majority of prepaid expenses includes prepaid health and other insurance expenses.

Inventory - Inventory consists of merchandise for sale at the gift shop at VMC, and is valued at the lower of cost of market. Cost is determined by the first-in, first-out method.

Investments - The Foundation's investments are valued in accordance with GAAP, including Fair Value Measurements. The Foundation may have risk associated with its concentration of investments in one geographic region and in certain industries.

Publicly traded - The Foundation invests in publicly traded securities. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are determined by comparison of costs of acquisition to proceeds at the time of disposal. Dividend and interest income are accrued when earned.

Investment pool - The Foundation invests in the Silicon Valley Community Foundation investment pool. These investments are carried at estimated fair values as determined by the investment manager after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at the Foundation's percentage interest owned in this investment pool. Because of the inherent uncertainty of valuations, however, these estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Property and equipment - Property and equipment are stated at cost or at their estimated fair value at date of donation. Depreciation is computed using straight-line method over the estimated useful lives of the assets ranging from three to five years. Equipment and software purchases over $3,000 and furniture purchases over $5,000 are capitalized. Repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed as incurred. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Note 2 - Summary of significant accounting policies (continued):

Grants payable - Grants are made in accordance with the Foundation's mission. Unconditional grants that are expected to be paid after one year are reported at fair value based on several factors including and the timing of the expected cash flows. Such fair value reserves are recorded only if material to the financial statements. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied.

Deferred grants - Deferred grants consist of cash received from the Gordon and Betty Moore Foundation for which the VMC Foundation is contracted to perform specific services. These amounts are deferred and will be recognized as revenues in the year the services are provided and the revenue is earned.

Advertising - Advertising costs are expensed as incurred. For the years ended December 31, 2013 and 2012, advertising costs were approximately $167,000 and $237,000, respectively.

Concentration of credit risk - Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents. The Foundation maintains cash and cash equivalents with a commercial bank and other major financial institutions. These accounts are insured up to $250,000 per depositor by an agency of the Federal government. At times, such amounts might exceed Federal Deposit Insurance Corporation ("FDIC") limits. It is the Foundation's opinion that it is not exposed to any significant credit risks.

Fair value of financial instruments - Financial instruments included in the Foundation's Statements of Financial Position as of December 31, 2013 and 2012, include cash and cash equivalents, pledges receivable, accounts receivable, prepaid expenses, investments, accounts payable and grants payable. For cash and cash equivalents, accounts receivable, prepaid expense, and accounts payable, the carrying amount approximates fair value due to its short maturity. Investments, pledges receivable and grants payable are reflected in the accompanying Statements of Financial Position at their estimated fair values using methodologies described above.

Income taxes - The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Additionally, the Foundation is exempt from state income taxes under the California Revenue Code Section 2370(d). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Note 2 - Summary of significant accounting policies (continued):

Accounting for uncertainty for income taxes - The Foundation evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of December 31, 2013 and 2012, management did not identify any uncertain tax positions.

The Foundation is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is December 31, 2010 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years December 31, 2009 and forward.

Reclassification - Certain 2012 balances have been reclassified to conform to the 2013 financial statement presentation. These reclassifications have no effect on previously reported change in unrestricted net assets.

Subsequent events - Subsequent events are evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of December 31, 2013.

Note 3 - Pledges receivable:

The Foundation received a pledge of $5 million from a member of the Board of Directors during 2011. The Foundation received the initial payment of $2.5 million in January 2012. The remaining balance of $2.5 million is expected to be received in March 2015 and has been discounted at an annual interest rate of 3.25%, with unamortized discount of approximately $92,000 and $80,000 at December 31, 2013 and 2012, respectively.

The Foundation maintains one pledge receivable balance of $15,000 payable in equal installments in 2014 and 2015 and management has determined that the discount is not material to the financial statements.

The remaining pledges receivable balance of $1,065,419 and $1,878,806 for the years ended December 31, 2013 and 2012, respectively, are composed of various pledges and are expected to be received in the following year, therefore the pledges have not been discounted. Management determined no allowance is necessary for pledges receivable as of December 31, 2013 and 2012.

Note 4 - Beneficial interest:

The Foundation receives grants from another organization to fund various third-party organizations. Such grants are collected by the Foundation on behalf of the various third-party organizations. The Foundation does not have variance power over the funds. As a result, these grants are accounted for as beneficial interest payable when funds are received, and are not recorded as revenues. When funds are distributed, the payable is reduced rather than recording expenses. During the years ended December 31, 2013 and 2012, the foundation received $2,842,044 and $2,229,233, respectively, in grants, of which all were distributed to the intended recipients. However, per the grant agreements, there was $1,240,587 and $845,153 outstanding at December 31, 2013 and 2012, respectively, which had not yet been received by the Foundation nor distributed to the third party organizations. As a result, there were no payables or receivables required to be recorded at December 31, 2013 and 2012.

Note 5 - Investments:

The Foundation follows the provisions of the Fair Value Measurements and Disclosure topic of the Financial Accounting Standards Board Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of significant unobservable inputs. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The Foundation's investments, including investments restricted for permanent endowment, consisted of the following as of December 31, 2013 and 2012:

	2013	2012
Certificates of deposit	$ 1,451,166	$ 2,432,199
Fixed Income	470,083	-
Community Foundation pool	964,790	840,633
Total investments	$ 2,886,039	$ 3,272,832

Note 5 - Investments (continued):

The following schedule summarizes total investment returns for the years ended December 31:

	2013	2012
Realized gains	$ 53,147	$ 17,312
Unrealized gains	70,249	70,552
Interest and dividends	25,854	34,132
Interest and dividends (checking)	2,938	5,280
Total investment income	152,188	127,276
Investment related expenses	(17,280)	(12,803)
Total investment returns net of management fees	$ 134,908	$ 114,473

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment. The following are the Foundation's major categories of investments measured at fair value on a reoccurring basis:

- Level 1: Quoted prices in active markets for identical assets
- Level 3: Significant unobservable inputs

As of December 31, 2013:

	Level 1	Level 3
Certificates of deposit	$ 1,451,166	$ -
Fixed Income	470,083	-
Community Foundation pool	-	964,790
Total	$ 1,921,249	$ 964,790

Note 5 - Investments (continued):

As of December 31, 2012:

	Level 1	Level 3
Certificates of deposit	$ 2,432,199	$ -
Community Foundation pool	-	840,633
Total	$ 2,432,199	$ 840,633

The following is a reconciliation of the beginning and ending balances for investments measured at fair value on a reoccurring basis using significant unobservable inputs (Level 3) for the years ended December 31:

	2013	2012
Beginning balance	$ 840,633	$ 761,896
Total gains or losses (realized and unrealized)	130,697	82,863
Interest and dividend income	9,275	8,677
Investment expense	(15,815)	(12,803)
Ending balance	$ 964,790	$ 840,633

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments in the Community Foundation Investment Pool which does not have a readily determinable fair value. The Community Foundation prepares its financial statements consistent with the measurement principles of an investment company. The Community Foundation obtains pricing and valuations using prices from custodian banks and its pricing vendors, quarterly and audited financial statements from managers of private equity and hedge funds, and through initial and ongoing due diligence and monitoring by investment consultants, staff and the investment committee. At December 31, 2013 and 2012, the VMC Foundation had no unfunded commitments and all its investments in the investment pool can be redeemed at any time by written request with certain restrictions for large withdrawals and full redemption.

Note 6 - Property and equipment:

Property and equipment consisted of the following at December 31:

		2013		2012
Furniture and equipment	$	35,566	$	35,566
Vehicle		3,250		3,250
Total property and equipment		38,816		38,816
Less: Accumulated depreciation		(24,896)		(17,783)
Total property and equipment, net	$	13,920	$	21,033

Depreciation expense was approximately $7,000 for the years ended December 31, 2013 and 2012.

Note 7 - Deferred Grants:

The foundation received two separate grants from the Gordon and Betty Moore Foundation for the following programs: Medication Administration Checking (MAK) and Magnet Status (Magnet). These grants are accounted for as fees for services and the revenue is recognized in the year it is earned.

In January 2014, the Foundation discontinued the MAK and Magnet programs and the donors agreed that the funds can be used as temporarily restricted contributions for nursing.

Note 8 - Restricted net assets:

Temporarily restricted net assets - At December 31, 2013, the Foundation's temporarily restricted net assets consisted of donations whose use was restricted by the donor to provide support for the Santa Clara Valley Health and Hospital System (SCVHHS).

Permanently restricted net assets - The Foundation maintains a $10,000 permanently restricted investment contribution in which the donor intended for the Foundation to use towards creating an endowment fund. As of December 31, 2013, the Foundation has not created an endowment fund.

Note 9 - Sales of merchandise:

The sale of merchandise and related costs consisted of the following for the years ended December 31:

	2013	2012
Gross receipts	$ 315,085	$ 309,949
Cost of sales		
Cost of goods sold	182,364	169,892
Other costs of sales		
Direct labor	73,654	70,216
Education and conference	6,902	5,578
Store supplies	2,366	3,044
Miscellaneous store expenses	5,986	7,051
Total other costs of sales	88,908	85,889
Total cost of sales	271,272	255,781
Net sales	$ 43,813	$ 54,168

Note 10 - In-kind contributions:

In kind contributions of wages, facilities, utilities, and other various items are recorded as contributions and expenses at their fair value at the time of contribution. The following in-kind wages and facilities were received by the Foundation from a related party during the years ended December 31:

	2013	2012
Wages	$ -	$ 479,594
Occupancy	82,440	82,441
Other	31,904	48,472
Total in-kind contributions	$ 114,344	$ 610,507

Note 11 - Contingencies:

Grants and contracts awarded to VMC Foundation are subject to the funding agencies criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases the Foundation could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and the grants administered during the period.

VMC FOUNDATION
Notes to the Financial Statements

Note 12 - Related party transactions:

During the years ended December 31, 2013 and 2012, the Foundation received contributions from Board members and management in the amount of approximately $105,000 and $83,000, respectively.

The Foundation received approximately $22,000 and $35,000 worth of computer services from a company whose Executive Director is one of the board members during the years ended December 31, 2013 and 2012, respectively.

See Note 11 for in-kind contributions received from related party.

Note 13 - Special events:

The Foundation's special events are reported in the Statements of Activities and Changes in Net Assets and consist of the following for the years ended December 31:

	2013	2012
Special event income		
Gala event	$ 184,284	$ 204,135
Heroes Run	35,637	-
Golf Tournament	-	39,340
Vino and Vista	-	625
Other	-	24,223
Total special event income	$ 219,921	$ 268,323
Special event expense		
Gala event	$ 103,476	$ 71,799
Heroes Run	14,995	-
Golf Tournament	-	24,970
Other	1,000	7,493
Total special event expense	119,471	104,262
Special events, net	$ 100,450	$ 164,061

For the years ended December 31, 2013 and 2012, special event revenues consisted of approximately $170,000 and $203,000 of contributions, respectively.