



Financial Statements  
December 31, 2014 and 2013

Together with  
Independent Auditors' Report

**VMC FOUNDATION**

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**December 31, 2014**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of VMC Foundation (the "Foundation", a California nonprofit public benefit corporation), which comprise the statements of financial position as of December 31, 2014 and 2013, 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 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

**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, 2014 and 2013, 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  
May 27, 2015

**VMC FOUNDATION**  
**Statements of Financial Position**

	December 31,	
	2014	2013
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 1,458,062	\$ 1,716,319
Pledges receivable, net	7,928,658	3,404,238
Accounts receivable	262,602	241,066
Prepaid expenses	24,843	35,474
Inventory	21,320	18,372
Investments	2,198,459	2,876,039
Cash surrender value of life insurance	68,918	45,237
Investments restricted for permanent endowment	10,000	10,000
Property and equipment, net	6,807	13,920
Total assets	\$ 11,979,669	\$ 8,360,665
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 123,488	\$ 411,855
Deferred grants	-	259,606
Deferred revenue	88,096	15,000
Total liabilities	211,584	686,461
Net assets:		
Unrestricted	1,046,581	620,076
Temporarily restricted	10,711,504	7,044,128
Permanently restricted	10,000	10,000
Total net assets	11,768,085	7,674,204
Total liabilities and net assets	\$ 11,979,669	\$ 8,360,665

The accompanying notes are an integral part of these financial statements

**VMC FOUNDATION**  
**Statement of Activities and Changes in Net Assets**  
For the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b><u>REVENUE AND SUPPORT</u></b>				
Grants	\$ 29,361	\$ 7,048,956	\$ -	\$ 7,078,317
Contributions	2,434,183	1,244,035	-	3,678,218
Service fees	394,123	-	-	394,123
Contributions in-kind	85,664	32,760	-	118,424
Special events, net	139,837	-	-	139,837
Investment income	69,888	-	-	69,888
Sale of merchandise, net	52,735	-	-	52,735
Gain on life insurance	23,681	-	-	23,681
Other revenues	26,410	-	-	26,410
Net assets released from restriction	4,658,375	(4,658,375)	-	-
Total revenue and support	<u>7,914,257</u>	<u>3,667,376</u>	<u>-</u>	<u>11,581,633</u>
<b><u>EXPENSES</u></b>				
Program services	6,252,478	-	-	6,252,478
Supporting services:				
Management and general	367,156	-	-	367,156
Fundraising	868,118	-	-	868,118
Total expenses	<u>7,487,752</u>	<u>-</u>	<u>-</u>	<u>7,487,752</u>
Change in net assets	426,505	3,667,376	-	4,093,881
Net assets, beginning of year	<u>620,076</u>	<u>7,044,128</u>	<u>10,000</u>	<u>7,674,204</u>
Net assets, end of year	<u>\$ 1,046,581</u>	<u>\$ 10,711,504</u>	<u>\$ 10,000</u>	<u>\$ 11,768,085</u>

The accompanying notes are an integral part of these financial statements

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b><u>REVENUE AND SUPPORT</u></b>				
Grants	\$ 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	<u>6,224,526</u>	<u>(582,369)</u>	<u>-</u>	<u>5,642,157</u>
<b><u>EXPENSES</u></b>				
Program services	4,963,178	-	-	4,963,178
Supporting services:				
Management and general	270,557	-	-	270,557
Fundraising	903,791	-	-	903,791
Total expenses	<u>6,137,526</u>	<u>-</u>	<u>-</u>	<u>6,137,526</u>
Change in net assets	87,000	(582,369)	-	(495,369)
Net assets, beginning of year	<u>533,076</u>	<u>7,626,497</u>	<u>10,000</u>	<u>8,169,573</u>
Net assets, end of year	<u>\$ 620,076</u>	<u>\$ 7,044,128</u>	<u>\$ 10,000</u>	<u>\$ 7,674,204</u>

The accompanying notes are an integral part of these financial statements

**VMC FOUNDATION**  
**Statement of Functional Expenses**  
For the Year Ended December 31, 2014

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total Support services</u>	<u>Total Program and Support services</u>
Expenses:					
Assistance to U.S. Entities	\$ 4,338,817	\$ -	\$ -	\$ -	\$ 4,338,817
Salaries and wages	515,827	122,348	571,368	693,716	1,209,543
Employee benefits	38,725	13,886	25,857	39,743	78,468
Payroll taxes	36,390	13,908	36,248	50,156	86,546
Retirement contribution	-	28,839	-	28,839	28,839
Management and contractors fees	550,277	29,013	29,946	58,959	609,236
Conference, events and meetings	265,418	3,806	16,208	20,014	285,432
Advertising and promotions	92,048	-	77,775	77,775	169,823
In-kind expenses	77,765	6,727	33,932	40,659	118,424
Travel	90,519	719	5,924	6,643	97,162
Computer expenses	76,683	2,282	11,260	13,542	90,225
Staff training and recognition	70,014	4,226	1,498	5,724	75,738
Printing, mailing and postage	19,830	2,956	45,460	48,416	68,246
Office expense and supplies	42,751	6,917	6,663	13,580	56,331
Insurance	2,608	49,922	-	49,922	52,530
Bank and investment fees	13,875	21,117	1,998	23,115	36,990
Accounting and professional expenses	1,692	30,626	945	31,571	33,263
Other expenses	18,889	96	3,036	3,132	22,021
Bad debt	350	17,569	-	17,569	17,919
Depreciation	-	7,113	-	7,113	7,113
Legal	-	5,086	-	5,086	5,086
<b>Total expenses</b>	<b>\$ <u>6,252,478</u></b>	<b>\$ <u>367,156</u></b>	<b>\$ <u>868,118</u></b>	<b>\$ <u>1,235,274</u></b>	<b>\$ <u>7,487,752</u></b>

The accompanying notes are an integral part of these financial statements



**VMC FOUNDATION**  
**Statement of Functional Expenses (continued)**  
For the Year Ended December 31, 2013

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total Support services</u>	<u>Total Program and Support services</u>
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
Retirement contribution	-	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
Printing, mailing and postage	3,564	2,995	56,942	59,937	63,501
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
Insurance	6,376	32,827	2,077	34,904	41,280
Accounting and professional expenses	1,250	31,461	937	32,398	33,648
Bank and investment fees	12,585	18,168	672	18,840	31,425
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
<b>Total expenses</b>	<b>\$ 4,963,178</b>	<b>\$ 270,557</b>	<b>\$ 903,791</b>	<b>\$ 1,174,348</b>	<b>\$ 6,137,526</b>

The accompanying notes are an integral part of these financial statements

**VMC FOUNDATION**  
**Statements of Cash Flows**

	For the Year Ended	
	December 31,	
	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 4,093,881	\$ (495,369)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Unrealized gains on investments	(38,588)	(70,249)
Realized gains on investments	-	(53,527)
Depreciation	7,113	7,113
Deferred grants converted to contributions	(259,606)	-
Increase in cash surrender value of life insurance	(23,681)	(38,121)
Changes in operating assets and liabilities:		
Pledges receivable, net	(4,524,420)	894,515
Accounts receivable	(21,536)	(91,683)
Prepaid expenses	10,631	(15,652)
Inventory	(2,948)	(2,988)
Accounts payable and accrued liabilities	(288,367)	275,462
Grants payable	-	(50,000)
Deferred grants	-	(13)
Deferred revenue	73,096	15,000
	(974,425)	374,488
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Acquisition of investments	(788,980)	(486,981)
Proceeds from sales of investments	1,505,148	997,550
	716,168	510,569
Net cash provided by investing activities		
Increase (decrease) in cash and cash equivalents	(258,257)	885,057
Cash and cash equivalents, beginning of year	1,716,319	831,262
Cash and cash equivalents, end of year	\$ 1,458,062	\$ 1,716,319

The accompanying notes are an integral part of these financial statements

**VMC FOUNDATION**  
**Notes to the Financial Statements**  
December 31, 2014

**Note 1 - Organization and operations:**

VMC Foundation (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, 2014 and 2013, the volunteers who run this inspiring program bought, built and gave more than 3,600 bikes to children in Silicon Valley, respectively.

**VMC FOUNDATION**  
**Notes to the Financial Statements**  
December 31, 2014

**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 - 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 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**  
December 31, 2014

**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 possessing 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.

Grants - 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 the several factors included 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.

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, 2014 and 2013.

**VMC FOUNDATION**  
**Notes to the Financial Statements**  
December 31, 2014

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

Pledges receivables (continued) - 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.

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, 2014 and 2013.

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 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.

**VMC FOUNDATION**  
**Notes to the Financial Statements**  
December 31, 2014

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

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.

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. In 2014, these grants were converted into contributions. See Note 7.

Advertising - Advertising costs are expensed as incurred. For the years ended December 31, 2014 and 2013, advertising costs were approximately \$170,000 and \$167,000, respectively.

Sales tax - The State of California imposes a sales tax on all of the Foundation's sales on inventory sold at the Gift Shop to non-exempt customers. The Foundation collects that sales tax from customers and remits the entire amount to the State. The Foundation's accounting policy is to exclude the tax collected and remit to the State from revenues and cost of goods sold.

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.

Other concentrations - For the years December 31, 2014 and 2013, there was one donor that made up 37% and 31% of total grants and contributions, respectively.

Fair value of financial instruments - Financial instruments included in the Foundation's Statements of Financial Position as of December 31, 2014 and 2013, include cash and cash equivalents, pledges receivable, accounts receivable, prepaid expenses, investments, accounts payable and accrued expenses. For cash and cash equivalents, accounts receivable, prepaid expense, and accounts payable and accrued expenses, the carrying amount approximates fair value due to its short maturity. Investments are reflected in the accompanying Statements of Financial Position at their estimated fair values using methodologies described above.

**VMC FOUNDATION**  
**Notes to the Financial Statements**  
December 31, 2014

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

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.

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, 2014 and 2013, 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, 2011 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years December 31, 2010 and forward.

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, 2014.

**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 December 2015 and has been discounted at an annual interest rate of 3.25%, with unamortized discount of approximately \$79,000 and \$92,000 at December 31, 2014 and 2013, respectively. See Note 12.

The Foundation received a pledge of \$4 million from Santa Clara County in July 2014. The amount is expected to be received in four installments of \$1 million each for the following four years. The pledge has been discounted at an annual interest rate of 3.25%, with an unamortized discount of approximately \$247,000 at December 31, 2014.

The Foundation received three additional multi-year pledges in 2014 which total \$1.45 million and have an amount due of approximately \$971,000 at December 31, 2014. The Foundation expects to receive approximately \$550,000, \$359,000, \$50,000 and \$10,000 in 2015, 2016, 2017 and 2018 respectively. These have been discounted at an annual interest rate of 3.25% with an unamortized discount of approximately \$30,000.



**VMC FOUNDATION**  
**Notes to the Financial Statements**  
December 31, 2014

**Note 3 - Pledges receivable (continued)**

The remaining pledges receivable balance of \$814,042 and \$1,065,419 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013.

**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, 2014 and 2013, the foundation received \$2,031,596 and \$2,842,044, respectively, in grants, of which all were distributed to the intended recipients. However, per the grant agreements, there was \$1,160,381 and \$1,240,587 outstanding at December 31, 2014 and 2013, 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, 2014 and 2013.

**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.

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**Note 5 - Investments (continued):**

The Foundation's investments, including investments restricted for permanent endowment, consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$ 444,641	\$ 1,451,166
Fixed income	505,917	470,083
Community Foundation pool	<u>1,257,901</u>	<u>964,790</u>
Total investments	<u>\$ 2,208,459</u>	<u>\$ 2,886,039</u>

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

	<u>2014</u>	<u>2013</u>
Realized gains (losses)	\$ -	\$ (6,268)
Unrealized gains	38,588	129,664
Interest and dividends	28,613	25,854
Interest and dividends (checking)	<u>2,687</u>	<u>2,938</u>
Total investment income	69,888	152,188
Investment related expenses	<u>(19,202)</u>	<u>(17,280)</u>
Total investment returns net of management fees	<u>\$ 50,686</u>	<u>\$ 134,908</u>

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 recurring basis:

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

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**Note 5 - Investments (continued):**

As of December 31, 2014:

	<u>Level 1</u>	<u>Level 3</u>
Certificates of deposit	\$ 444,641	\$ -
Fixed income	505,917	-
Community Foundation pool	<u>-</u>	<u>1,257,901</u>
Total investments	<u>\$ 950,558</u>	<u>\$ 1,257,901</u>

As of December 31, 2013:

	<u>Level 1</u>	<u>Level 3</u>
Certificates of deposit	\$ 1,451,166	\$ -
Fixed income	470,083	-
Community Foundation pool	<u>-</u>	<u>964,790</u>
Total investments	<u>\$ 1,921,249</u>	<u>\$ 964,790</u>

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:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 964,790	\$ 840,633
Contributions	250,000	-
Total gains or losses (realized and unrealized)	49,596	130,697
Interest and dividend income	9,636	9,275
Investment expense	<u>(16,121)</u>	<u>(15,815)</u>
Ending balance	<u>\$ 1,257,901</u>	<u>\$ 964,790</u>

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**Note 5 - Investments (continued):**

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, 2014 and 2013, 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:

	2014	2013
Furniture and equipment	\$ 35,566	\$ 35,566
Vehicle	3,250	3,250
Total property and equipment	38,816	38,816
Less: Accumulated depreciation	(32,009)	(24,896)
Total property and equipment, net	\$ 6,807	\$ 13,920

Depreciation expense was approximately \$7,000 for the years ended December 31, 2014 and 2013.

**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 were accounted for as fees for services and the revenue were recognized in the year it was earned.

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

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**Note 8 - Restricted net assets:**

Temporarily restricted net assets - At December 31, 2014 and 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, 2014 and 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:

	2014	2013
Gross receipts	\$ 320,877	\$ 315,085
Cost of sales		
Cost of goods sold	178,758	182,364
Other costs of sales		
Direct labor	76,358	73,654
Education and conference	2,249	6,902
Store supplies	2,381	2,366
Miscellaneous store expenses	8,396	5,986
Total other costs of sales	89,384	88,908
Total cost of sales	268,142	271,272
Net sales	\$ 52,735	\$ 43,813

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**Note 10 - In-kind contributions:**

In kind contributions of 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 facilities were received by the Foundation from a related party during the years ended December 31:

	2014	2013
Occupancy	\$ 84,090	\$ 82,440
Other	34,334	31,904
Total in-kind contributions	\$ 118,424	\$ 114,344

**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.

**Note 12 – Related-party transactions:**

During the years ended December 31, 2014 and 2013, the Foundation received contributions from Board members and management in the amount of approximately \$114,000 and \$105,000, respectively.

The Foundation received approximately \$29,000 and \$22,000 worth of computer services from a company whose Executive Director is one of the board members during the years ended December 31, 2014 and 2013, respectively.

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 and the remaining balance of \$2.5 million is expected to be received in December 2015.

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

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**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:

	2014	2013
Special event income		
Gala event	\$ 251,581	\$ 184,284
Heroes Run	40,404	35,637
Vino and Vista	9,697	-
Total special event income	\$ 301,682	\$ 219,921
Special event expense		
Gala event	\$ 144,281	\$ 103,476
Heroes Run	16,357	14,995
Vino and Vista	1,207	-
Other	-	1,000
Total special event expense	161,845	119,471
Special events, net	\$ 139,837	\$ 100,450

For the years ended December 31, 2014 and 2013, special event revenues consisted of approximately \$187,000 and \$170,000 of contributions, respectively.

**Note 14 - Simple IRA plan:**

The Foundation established a Simple IRA plan for the benefit of its employees. New employees become eligible when they receive at least \$5,000 in annual compensation in any two preceding years and is expected to be paid at least \$5,000 in the current year is eligible to participate. Participants are eligible to make elective contributions and the Foundation also contributes 2% of the employee's compensation and matches up to 3% of compensation. For the years ended December 31, 2014 and 2013, the Foundation contributed approximately \$29,000 and \$28,000, respectively, on behalf of participants of the plan.