

VALLEYWISE HEALTH FOUNDATION

Financial Statements
and
Independent Auditor's Report

December 31, 2023
(with comparative totals for 2022)

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Independent Auditor's Report

To the Board of Directors of
Valleywise Health Foundation
Phoenix, Arizona

Opinion

We have audited the accompanying financial statements of Valleywise Health Foundation (the Foundation, a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Foundation as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

The Foundation's 2022 financial statements were previously audited by other auditors and in their report dated thereon April 17, 2023, expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

May 6, 2024

Valleywise Health Foundation

STATEMENT OF FINANCIAL POSITION

December 31, 2023

(with comparative financial information as of December 31, 2022)

	ASSETS	
	<u>2023</u>	<u>2022</u>
Current assets:		
Cash	\$ 7,400,434	\$ 4,016,403
Investments	1,676,524	1,420,809
Contributions receivable, current portion	2,568,072	955,653
Prepaid expenses	<u>34,516</u>	<u>21,448</u>
Total current assets	11,679,546	6,414,313
Contributions receivable, noncurrent portion	1,900,959	368,585
Endowment investments	1,133,580	
Furniture and equipment, net	53,909	63,404
Operating lease - right-of-use asset	<u>394,117</u>	<u>58,648</u>
Total assets	<u>\$15,162,111</u>	<u>\$ 6,904,950</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 2,855,188	\$ 491,227
Conditional contributions received in advance	2,500,000	2,019,000
Operating lease liability, current portion	<u>77,686</u>	<u>59,493</u>
Total current liabilities	5,432,874	2,569,720
Operating lease liability, noncurrent portion, net	<u>316,431</u>	
Total liabilities	<u>5,749,305</u>	<u>2,569,720</u>
Net assets:		
Without donor restrictions	1,441,427	1,487,419
With donor restrictions	<u>7,971,379</u>	<u>2,847,811</u>
Total net assets	<u>9,412,806</u>	<u>4,335,230</u>
Total liabilities and net assets	<u>\$15,162,111</u>	<u>\$ 6,904,950</u>

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

Valleywise Health Foundation

STATEMENT OF ACTIVITIES

Year Ended December 31, 2023

(with comparative financial information for the year ended December 31, 2022)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>	
			<u>2023</u>	<u>2022</u>
Revenue, support, gains and losses:				
Contributions	\$ 757,142	\$ 13,904,341	\$ 14,661,483	\$ 8,178,897
Grants		1,966,304	1,966,304	1,475,988
Special events	1,322,133		1,322,133	1,383,081
Less: direct donor benefits	<u>(248,413)</u>		<u>(248,413)</u>	<u>(184,909)</u>
Special events, net	1,073,720		1,073,720	1,198,172
Contributions in-kind	90,376		90,376	31,407
Support from Valleywise Health	1,000,000		1,000,000	1,000,000
Net investment income (loss)	338,939	1,580	340,519	(338,040)
Other income	10,947		10,947	129,570
Net assets released from restrictions	<u>10,748,657</u>	<u>(10,748,657)</u>		
Total revenue, support, gains and losses	<u>14,019,781</u>	<u>5,123,568</u>	<u>19,143,349</u>	<u>11,675,994</u>
Expenses:				
Program services - support for Valleywise Health	10,847,420		10,847,420	10,431,542
Management and general	751,570		751,570	1,026,507
Fundraising	<u>2,466,783</u>		<u>2,466,783</u>	<u>2,207,980</u>
Total expenses	<u>14,065,773</u>		<u>14,065,773</u>	<u>13,666,029</u>
Change in net assets	(45,992)	5,123,568	5,077,576	(1,990,035)
Net assets, beginning of year	<u>1,487,419</u>	<u>2,847,811</u>	<u>4,335,230</u>	<u>6,325,265</u>
Net assets, end of year	<u>\$ 1,441,427</u>	<u>\$ 7,971,379</u>	<u>\$ 9,412,806</u>	<u>\$ 4,335,230</u>

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

Valleywise Health Foundation

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2023

(with comparative financial information for the year ended December 31, 2022)

	Program services -			TOTALS	
	support for Valleywise Health	Management and general	Fundraising	2023	2022
Expenses:					
Salaries	\$ 19,965	\$ 250,954	\$ 1,137,406	\$ 1,408,325	\$ 1,659,068
Payroll taxes and employee benefits	<u>1,398</u>	<u>31,561</u>	<u>219,732</u>	<u>252,691</u>	<u>296,478</u>
Total salaries and related expenses	21,363	282,515	1,357,138	1,661,016	1,955,546
Payments made to support Valleywise Health	10,817,628			10,817,628	10,394,768
Professional services	8,429	235,601	236,876	480,906	340,523
Professional development		3,424	6,493	9,917	35,265
Special events			615,765	615,765	457,679
Occupancy		65,699		65,699	68,995
Community outreach			105,088	105,088	74,647
Technology		52,223	22,716	74,939	68,502
Dues and subscriptions		13,099		13,099	12,098
Banking and related fees		37,697		37,697	18,695
Depreciation		7,651		7,651	8,703
Office expense		13,600	7,883	21,483	20,186
Insurance		7,904		7,904	11,342
Promotion and marketing			114,824	114,824	182,487
Miscellaneous		<u>32,157</u>		<u>32,157</u>	<u>16,593</u>
Total expenses	<u>\$10,847,420</u>	<u>\$ 751,570</u>	<u>\$ 2,466,783</u>	<u>\$14,065,773</u>	<u>\$13,666,029</u>

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

Valleywise Health Foundation

STATEMENT OF CASH FLOWS

Year Ended December 31, 2023

(with comparative financial information for the year ended December 31, 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,077,576	\$ (1,990,035)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	7,651	8,703
Donated stock	(10,832)	
Donated furniture	(17,347)	
Unrealized and realized (gain) loss on investments	(201,361)	409,506
Net change in operating lease - right-of-use asset and operating lease liability	(845)	845
Change in:		
Contributions receivable, net	(3,144,795)	(748,858)
Prepaid expenses	(13,068)	16,017
Accounts payable and accrued expenses	2,363,961	(172,953)
Conditional contributions received in advance	<u>481,000</u>	<u>2,019,000</u>
Net cash provided (used) by operating activities	4,541,940	(457,775)
Cash flows from investing activities:		
Purchases of property and equipment	(25,909)	(59,370)
Purchases of investments	(1,132,000)	(166,033)
Proceeds from sales of investments	<u>300,000</u>	<u>300,000</u>
Net cash (used) provided by investing activities	<u>(1,157,909)</u>	<u>74,597</u>
Change in cash	3,384,031	(383,178)
Cash, beginning of year	<u>4,016,403</u>	<u>4,399,581</u>
Cash, end of year	<u>\$ 7,400,434</u>	<u>\$ 4,016,403</u>
<u>Supplemental disclosures of noncash investing and financing activities</u>		
Leased asset obtained in exchange for new operating lease liability	\$ 394,117	\$ 58,648

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

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Valleywise Health Foundation (formerly Maricopa Health Foundation) (the Foundation) was incorporated in the state of Arizona in 1994 as a nonprofit corporation. The Foundation was established to provide philanthropic support of Valleywise Health (formerly Maricopa Integrated Health System) (VH) programs, education, research, and capital improvements projects that advance patient welfare and improve health care in the community. The Foundation is funded by donations, pledges, grants, and other fundraising activities.

The significant accounting policies of the Foundation are as follows:

Basis of Presentation - The Foundation follows standards of accounting and financial reporting as prescribed by accounting principles generally accepted in the United States of America. In accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, the Foundation reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions include those net assets over which the Board of Directors has discretionary control in carrying out the operations of the Foundation. Under this category the Foundation maintains an operating fund, plus any net assets designated by the Board for specific purposes. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. During the year ended December 31, 2024, the Foundation's Board of Directors established a reserve fund, which is included in net assets without donor restrictions, as designations imposed by the Board and are not donor restricted.

Net assets with donor restrictions include those net assets which are subject to donor or time restrictions, and for which the applicable restrictions were not met as of the end of the fiscal year.

Use of Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and 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 those estimates.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Investments - Investments are recorded at fair value. Unrealized and realized gains and losses are accounted for as investment income.

Contributions Receivable - Contributions, including unconditional promises to give, are recognized in the period the contribution or promise is made. Conditional promises to give are not recognized until they become unconditional, that is when the barriers are overcome. Unconditional promises expected to be collected in future years are recorded at the present value of expected future cash flows discounted at an appropriate discount rate commensurate with the risks involved. Management has established an allowance for doubtful accounts based on estimated amounts that may not be collected.

Prepaid Expenses - Prepaid expenses consist of amounts paid in advance for expenses relating to contracts and events for the subsequent year, as well as health association costs and liability insurance premiums.

Furniture and Equipment - Furniture and equipment costing more than \$1,000 is capitalized and stated at historical cost. Donations of furniture and equipment are reported net assets without donor restrictions unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment are reported as with donor restrictions. Repair and maintenance costs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 3 to 5 years.

Conditional Contributions Received in Advance - These advances consist of amounts received as conditional contributions, which are expected to be earned and recognized as revenue in subsequent periods as donor-imposed conditions are met.

Grants and Contributions - Contributions are reported in accordance with the FASB ASC topic of *Not-for-Profit Entities*. Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with donor restrictions or without donor restrictions depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Restricted contributions are reported as increases in net assets without restrictions if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in net assets with donor restrictions. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Contributions In-Kind - Contributions in-kind are also recognized in accordance with the provisions of the FASB ASC topic of *Not-for-Profit Entities*. Use of donated equipment, goods and services are recorded at their estimated fair value at the date of donation. Donated services are recognized in the financial statements at their estimated fair value if the following criteria are met:

- i) The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or
- ii) The services enhance or create an asset.

The Foundation also receives donated services that do not require specific expertise, but which are nonetheless central to the Foundation's operations. No volunteer services are recognized in the accompanying financial statements as they do not meet the above criteria; however, a substantial number of volunteers have donated significant amounts of their time to the Foundation.

Leases - The Foundation determines if an arrangement is or contains a lease at contract inception based on whether the arrangement involves the use of a physically distinct identified asset and whether the Foundation has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period as well as the right to direct the use of the asset.

Right-of-use assets represent the Foundation's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Right-of-use assets and the corresponding lease liabilities are recognized at commencement date based on the present value of lease payments for all leases with terms longer than twelve months. As the majority of the Foundation's leases do not provide an implicit interest rate, to determine the present value of lease payments, the Foundation uses its incremental borrowing rate based on information available on the lease commencement date and uses the implicit rate when readily determinable. The Foundation determines its incremental borrowing rate based on a comparable market yield curve consistent with the Foundation's credit rating, term of the lease and relative economic environment.

Income Taxes - The Foundation is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Functional Expense Allocation - The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: salaries and related expenses, professional services, technology, and office, which are allocated on the basis of estimates of time and effort.

Prior Year Summarized Information - The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should only be read in conjunction with the Foundation's financial statements for the year ended December 31, 2022, from which the summarized information was derived.

Reclassifications - Certain reclassifications were made to the 2022 financial statements in order to conform to the 2023 presentation.

Subsequent Events - Subsequent events have been evaluated through May 6, 2024, which was the date the Foundation's financial statements were available to be issued.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Foundation monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Foundation has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

	<u>2023</u>	<u>2022</u>
Financial assets included in current assets:		
Cash	\$ 7,400,434	\$ 4,016,403
Investments	1,676,524	1,420,809
Contributions receivable, current portion	<u>2,568,072</u>	<u>955,653</u>
Total financial assets included in current assets	11,645,030	6,392,865
Less amounts unavailable for general expenditure within one year:		
Board-designated reserve fund	(317,443)	
Conditional contributions received in advance	(2,500,000)	(2,019,000)
Net assets with donor restrictions, less noncurrent portion of contributions receivable and endowment investments	<u>(4,936,840)</u>	<u>(2,479,226)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,890,747</u>	<u>\$ 1,894,639</u>

In addition to financial assets available to meet general expenditures over the year, the Foundation operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants, and other revenues and by utilizing donor-restricted resources from current and prior years gifts. The Board-designated reserve fund may be utilized with a majority vote from the Board of Directors. In addition, the Foundation receives \$250,000 quarterly from the Maricopa County Special Health Care District as part of their Cooperative Service Agreement. See Note 6.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities, and they are considered to be the most reliable evidence of fair value.

Level 2 inputs are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The Foundation did not have any financial instruments it valued based on Level 2 inputs at December 31, 2023 and 2022.

Level 3 inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Foundation did not have any financial instruments it valued based on Level 3 inputs at December 31, 2023 and 2022.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Equities, Fixed Income Securities, Money Market Funds, and Other: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

Fair value of assets measured on a recurring basis was as follows at December 31:

	<u>Level 1</u>	
	<u>2023</u>	<u>2022</u>
Equity securities	\$ 1,007,509	\$ 862,185
US fixed income	695,874	439,097
Other		117,505
Money market funds	<u>1,104,698</u>	
Total investments, including endowment	<u>\$ 2,810,104</u>	<u>\$ 1,420,809</u>

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 4 - CONTRIBUTIONS RECEIVABLE, NET

The Foundation's contributions receivable consisted of the following for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 2,568,072	\$ 955,653
Receivable in two to five years	<u>2,076,794</u>	<u>440,000</u>
	4,644,866	1,395,653
Less:		
Discount to net present value (5%)	(160,835)	(21,415)
Allowance for uncollectible pledges	<u>(15,000)</u>	<u>(50,000)</u>
	<u>\$ 4,469,031</u>	<u>\$ 1,324,238</u>

At December 31, 2023, 52% of the Foundation's contributions receivable was due from one family foundation.

NOTE 5 - ENDOWMENT FUND

Endowment Description: During the year ended December 31, 2023, the Foundation established a permanent, restricted charitable endowment fund to be known as the Herbert Johnson Louis MD Faculty and Resident Education Endowment. The purpose of the income is to support the charitable purposes of the Foundation by providing support to develop residents, the ability of faculty to coach, connect residents to increase retention, and improve the overall quality outcomes. As required by GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Foundation follows Arizona's Management of Charitable Funds Acts (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Foundation to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors, and the donor's intent that the fund continue in perpetuity.

As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by the MCFA.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 5 - ENDOWMENT FUND - CONTINUED

In accordance with MCFA, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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) the Foundation's other resources, and (7) the Foundation's investment policies.

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending polices, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding for grants and to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The Foundation's primary objective is to provide protection of principal and ensure reasonable growth of principal relative to indices as determined by the Investment Committee (the Committee).

Strategies Employed for Achieving Objectives: A prudent portion of the annual earnings and/or accumulated appreciation of each fund may be expended each year. In the first four years of endowment creation, the availability of distributions is entirely dependent on the short-term actual investment returns. Therefore, it is recommended the endowment be given time to accumulate additional value before starting distributions. If funds must be used immediately, distributions should be limited to actual dividend and interest income.

Spending Policy: Subject to the intent of donor expressed purposes, the Foundation may appropriate for expenditure or accumulate so much of the endowment fund as they determine is prudent for the uses, benefits, purpose and duration for which the endowment fund is established unless stated otherwise. The portion of the endowment to be allocated for spending during any fiscal year is based on a calendar-quarter average value calculated as of the end of the preceding fiscal year.

The spending policy should be reviewed periodically by the Committee to ensure that earnings and accumulated appreciation are adequate to sustain the distribution. The Committee may adjust the spending rate percentage as it deems appropriate, but in no event shall the spending rate percentage be lower than 2% or higher than 6% unless specifically authorized by majority vote of the Foundation's Board of Directors.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 5 - ENDOWMENT FUND- CONTINUED

Activities of the endowment fund are as follows for the year ended December 31, 2023:

	Net Assets With Donor Restrictions
Contributions	\$ 1,132,000
Investment return, net	<u>1,580</u>
Endowment net assets, end of year	<u>\$ 1,133,580</u>

NOTE 6 - COOPERATIVE SERVICE AGREEMENT

Effective July 1, 2023, the Foundation entered into a Cooperative Service Agreement with Maricopa County Special Health Care District (District). The agreement provides for greater collaboration between the Foundation and the District with respect to enhanced philanthropic support for the District. The agreement provides for the District to have three voting positions on the Foundation's Board of Directors. Annually, the District will provide \$1,000,000 of support to the Foundation so that the Foundation can expand its capacity to raise funds. The Foundation, in turn, will endeavor to provide increased financial support to the District and meet identified key performance indicators with respect to Return on Investment (ROI) and Cost Per Dollar Raised (CPDR). For each of the years ended December 31, 2023 and 2022, the District provided \$1,000,000 of funding to the Foundation. The five-year agreement may be extended on an annual basis. It also may be terminated by either party upon 360 days prior written notice.

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions activity for the year ended December 31, 2023 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending Balance</u>
All in Campaign	\$ 2,271,531	\$ 13,342,032	\$ (10,329,572)	\$ 5,283,991
Endowment		1,133,580		1,133,580
Grants	100,000	854,737	(254,737)	700,000
Programs	<u>476,280</u>	<u>541,876</u>	<u>(164,348)</u>	<u>853,808</u>
	<u>\$ 2,847,811</u>	<u>\$ 15,872,225</u>	<u>\$ (10,748,657)</u>	<u>\$ 7,971,379</u>

Net assets with donor restrictions activity for the year ended December 31, 2022 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending Balance</u>
All in Campaign	\$ 3,195,843	\$ 8,329,245	\$ (9,253,557)	\$ 2,271,531
Grants	40,000	200,000	(140,000)	100,000
Programs	<u>592,210</u>	<u>592,815</u>	<u>(708,745)</u>	<u>476,280</u>
	<u>\$ 3,828,053</u>	<u>\$ 9,122,060</u>	<u>\$ (10,102,302)</u>	<u>\$ 2,847,811</u>

NOTE 8 - CONTRIBUTIONS IN-KIND

Contributions in-kind are valued based on estimated fair values as provided by donors for special events items, and by vendors for donated furniture. Contributions in-kind are utilized in operations and included the following for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Special events	\$ 73,029	\$ 31,407
Donated furniture	<u>17,347</u>	
	<u>\$ 90,376</u>	<u>\$ 31,407</u>

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 9 - LEASES

The Foundation had an operating lease expire during the fiscal year, and entered into a new operating lease for their office. The office lease commenced September 2023 with a 64 month term. The lease's first four months of rent were abated. Rental expense is included in occupancy expenses in the statement of functional expenses.

During the years ended December 31, 2023 and 2022, the components of the lease expense were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease cost:		
Rent expense	\$ 65,699	\$ 68,995

Supplemental information for the operating leases for the years ended December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Operating lease right-of-use assets	\$ 394,117	\$ 58,648
Operating lease liabilities:		
Current portion	\$ 77,686	\$ 59,493
Noncurrent portion, net	316,431	

Weighted average remaining lease term:

Operating leases	5 years	1 year
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During the years ended December 31, 2023 and 2022, the Foundation had the following cash and non-cash activities associated with leases:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 59,493	
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 394,117	\$ 58,648

Valleywise Health Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 9 - LEASES- CONTINUED

Future minimum operating lease commitments are as follows:

Year ending December 31,		
2024	\$	85,131
2025		87,683
2026		90,309
2027		93,022
2028		<u>95,808</u>
		451,953
	Less: interest	<u>57,836</u>
	Present value of lease liabilities	<u>\$ 394,117</u>

Because the Foundation does not have access to the rate implicit in the lease, the Foundation utilizes the a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The discount rate applied to calculate the lease liability as of December 31, 2023, was 5%.

NOTE 10 - CONCENTRATIONS

The Foundation received a contribution from an unrelated foundation during the year ended December 31, 2023, which comprised approximately 24% of its revenue and support. During the year ended December 31, 2022, the Foundation received two contributions comprising 34% of total revenue and support.

NOTE 11 - RELATED PARTY TRANSACTION

During the year ended December 31, 2023, a Board member donated a purpose restricted contribution to establish an endowment fund. See Note 5.