VALLEY MEDICAL CENTER
foundation

Helping Silicon Valley Care

Financial Statements
December 31, 2019 and 2018

Together with
Independent Auditors' Report

VMC FOUNDATION

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December 31, 2019

Robert Lee & Associates, LLP

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, 2019 and 2018, 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, 2019 and 2018, 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
October 22, 2020

VMC FOUNDATION
Statements of Financial Position

	December 31, 2019	December 31, 2018
ASSETS		
Assets:		
Cash and cash equivalents	$ 2,257,005	$ 1,751,359
Pledges receivables, net	893,348	2,470,817
Accounts receivable	348,352	361,230
Prepaid expenses	47,202	54,147
Inventories	179,079	396,940
Investments	5,820,939	4,707,588
Cash surrender value of life insurance	207,189	175,885
Investments restricted for permanent endowment	10,000	10,000
Property and equipment, net	22,509	26,729
Total assets	$ 9,785,623	$ 9,954,695
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 224,772	$ 288,052
Deferred revenue	24,440	-
Total liabilities	249,212	288,052
Net assets:		
Without donor restrictions	1,355,411	875,568
With donor restrictions	8,181,000	8,791,075
Total net assets	9,536,411	9,666,643
Total liabilities and net assets	$ 9,785,623	$ 9,954,695

The accompanying notes are an integral part of these financial statements

VMC FOUNDATION

Statement of Activities and Change in Net Assets

For the Year Ended December 31, 2019

	Without donor restrictions	With donor restrictions	Total
REVENUE AND SUPPORT			
Contributions	$ 1,587,217	$ 1,372,463	$ 2,959,680
Grants	16,000	657,832	673,832
Investment income	424,213	-	424,213
Contributions in-kind	328,888	47,701	376,589
Special events, net	276,966	-	276,966
Service fees	264,762	-	264,762
Sale of merchandise, net	73,329	-	73,329
Other revenues	24,059	-	24,059
Change in life insurance cash surrender value	31,304	-	31,304
Net assets released from restriction	2,688,071	(2,688,071)	-
Total revenue and support	5,714,809	(610,075)	5,104,734
EXPENSES			
Program services	3,737,339	-	3,737,339
Supporting services:			
Management and general	724,110	-	724,110
Fundraising	773,517	-	773,517
Total expenses	5,234,966	-	5,234,966
Change in net assets	479,843	(610,075)	(130,232)
Net assets, beginning of year	875,568	8,791,075	9,666,643
Net assets, end of year	$ 1,355,411	$ 8,181,000	$ 9,536,411

The accompanying notes are an integral part of these financial statements

VMC FOUNDATION
Statement of Activities and Change in Net Assets (continued)
For the Year Ended December 31, 2018

	Without donor restrictions	With donor restrictions	Total
REVENUE AND SUPPORT			
Contributions	$ 1,022,818	$ 1,001,942	$ 2,024,760
Grants	245,000	980,818	1,225,818
Contributions in-kind	139,599	464,881	604,480
Service fees	269,392	-	269,392
Special events, net	245,449	-	245,449
Sale of merchandise, net	63,671	-	63,671
Change in life insurance cash surrender value	29,399	-	29,399
Other revenues	19,055	1,343	20,398
Investment loss	(93,524)	-	(93,524)
Net assets released from restriction	3,971,359	(3,971,359)	-
Total revenue and support	5,912,218	(1,522,375)	4,389,843
EXPENSES			
Program services	4,886,143	-	4,886,143
Supporting services:			
Management and general	625,476	-	625,476
Fundraising	666,829	-	666,829
Total expenses	6,178,448	-	6,178,448
Change in net assets	(266,230)	(1,522,375)	(1,788,605)
Net assets, beginning of year	1,141,798	10,313,450	11,455,248
Net assets, end of year	$ 875,568	$ 8,791,075	$ 9,666,643

The accompanying notes are an integral part of these financial statements

VMC FOUNDATION

Statement of Functional Expenses

For the Year Ended December 31, 2019

	Program services	Management and general	Fundraising	Total support services	Total program and support services
Expenses:					
Salaries and wages	$ 763,950	$ 455,742	$ 439,346	$ 895,088	$ 1,659,038
Assistance to U.S. Entities	1,338,012	-	-	-	1,338,012
In-kind expenses	489,242	26,127	125,552	151,679	640,921
Management and contractors fees	414,128	2,300	1,544	3,844	417,972
Conference, events and meetings	292,275	3,723	24,019	27,742	320,017
Employee benefits	48,957	70,012	41,006	111,018	159,975
Office expense and supplies	130,191	8,428	654	9,082	139,273
Payroll taxes	49,520	30,124	29,829	59,953	109,473
Travel	64,769	1,593	2,284	3,877	68,646
Printing, mailing and postage	11,555	3,028	37,847	40,875	52,430
Insurance	4,884	52,768	-	52,768	57,652
Computer expenses	36,703	3,383	8,542	11,925	48,628
Advertising and promotions	4,976	160	41,528	41,688	46,664
Retirement contribution	20,016	11,872	10,749	22,621	42,637
Staff training and recognition	36,751	1,580	3,690	5,270	42,021
Accounting and professional expenses	1,629	33,076	941	34,017	35,646
Bank and investment fees	17,414	530	4,956	5,486	22,900
Legal	1,660	17,150	-	17,150	18,810
Other expenses	6,487	2,514	1,030	3,544	10,031
Depreciation	4,220	-	-	-	4,220
Total expenses	$ 3,737,339	$ 724,110	$ 773,517	$ 1,497,627	$ 5,234,966

The accompanying notes are an integral part of these financial statements

VMC FOUNDATION

Statement of Functional Expenses (continued)

For the Year Ended December 31, 2018

	Program services	Management and general	Fundraising	Total support services	Total program and support services
Expenses:					
Assistance to U.S. Entities	$ 2,845,866	$ -	$ -	$ -	$ 2,845,866
Salaries and wages	702,812	414,955	365,062	780,017	1,482,829
Management and contractors fees	491,729	3,416	40,129	43,545	535,274
Conference, events and meetings	251,577	3,029	42,146	45,175	296,752
Travel	172,212	9,961	62,405	72,366	244,578
In-kind expenses	106,085	6,996	4,913	11,909	117,994
Employee benefits	36,305	48,682	26,946	75,628	111,933
Payroll taxes	46,177	28,385	25,359	53,744	99,921
Office expense and supplies	65,265	583	7,606	8,189	73,454
Computer expenses	46,724	12,605	12,159	24,764	71,488
Staff training and recognition	59,411	5,345	49	5,394	64,805
Printing, mailing and postage	9,023	6,143	34,722	40,865	49,888
Insurance	4,484	40,645	-	40,645	45,129
Retirement contribution	18,506	10,982	8,908	19,890	38,396
Advertising and promotions	6,415	448	27,407	27,855	34,270
Accounting and professional expenses	1,651	31,134	817	31,951	33,602
Bank and investment fees	13,583	5	7,116	7,121	20,704
Other expenses	7,550	859	1,085	1,944	9,494
Legal	768	1,303	-	1,303	2,071
Total expenses	$ 4,886,143	$ 625,476	$ 666,829	$ 1,292,305	$ 6,178,448

The accompanying notes are an integral part of these financial statements

VMC FOUNDATION
Statements of Cash Flows

	For the Years Ended December 31, 2019	2018
Cash flows from operating activities:		
Change in net assets	$ (130,232)	$ (1,788,605)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized (gain) loss on investments	(404,486)	122,151
Depreciation	4,220	2,814
Change in discount on pledges receivable	(71,014)	(134,441)
Donation of inventories	-	(443,874)
Increase in cash surrender value of life insurance	(31,304)	(29,398)
Changes in operating assets and liabilities:		
Pledges receivable	1,648,483	1,358,285
Accounts receivable	12,878	(186,058)
Prepaid expenses	6,945	(11,223)
Inventories	217,861	83,518
Accounts payable and accrued liabilities	(63,280)	167,937
Deferred revenue	24,440	(2,750)
Net cash provided (used) by operating activities	1,214,511	(861,644)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(29,543)
Acquisition of investments	(2,088,872)	(2,220,675)
Proceeds from sales of investments	1,380,007	3,281,288
Net cash provided (used) by investing activities	(708,865)	1,031,070
Increase (decrease) in cash and cash equivalents	505,646	169,426
Cash and cash equivalents, beginning of year	1,751,359	1,581,933
Cash and cash equivalents, end of year	$ 2,257,005	$ 1,751,359

The accompanying notes are an integral part of these financial statements

VMC FOUNDATION

Notes to the Financial Statements

December 31, 2019

Note 1 - Organization and operations:

VMC Foundation (the "Foundation") is an independent community-driven 501(c)(3) public benefit corporation organization founded to support and protect Silicon Valley's most vital public healthcare institution— Santa Clara Valley Medical Center Hospitals & Clinics, which includes Santa Clara Valley Medical Center (SCVMC), O'Connor Hospital, St. Louise Regional Hospital and the DePaul Health Center. In partnership with SCVMC, the VMC Foundation raises philanthropic dollars to improve existing services, pioneer new models of care, and advance the cause of high-quality healthcare for all.

2019 Expansion - The County of Santa Clara purchased three bankrupt and/or closed hospitals in early 2019, two of which had pre-existing foundations that later disbanded. The VMC Foundation is now raising funds for and supporting services at Santa Clara Valley Medical Center Hospitals & Clinics, including O'Connor Hospital, St. Louise Regional Hospital, and the DePaul Health Center – in addition to the rest of the County of Santa Clara Health System.

The following are the Foundation's major programs:

A campaign to support a women and children's center - The opening of a new main hospital building at SCVMC in 2017 allowed the current main hospital to be re-purposed as a center focusing on women and children's care. The Foundation is raising funds to provide this building with 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 is the largest project the Foundation has ever undertaken. In 2018, the name of the building officially became the Susanne B. Wilson Women & Children's Center.

Violence prevention - The Santa Clara County Public Health Department is leading a community-wide coalition to address violence in East San Jose as a public health concern. As such, the VMC Foundation has been invited to be part of this coalition and has been chosen as the "Wellness Fund," where dollars raised to support the work of the coalition will be kept and administered. The Foundation's CEO is active on the coalition's leadership team.

Farmer's market - The VMC Foundation implemented a farmer's market on the campus of SCVMC for the benefit of patients and staff. Running May through November, the farmer's market 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 SCVMC's Spinal Cord Injury (SCI) and the Traumatic Brain Injury (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 SCVMC financially beyond what philanthropy alone can do.

VMC FOUNDATION

Notes to the Financial Statements

December 31, 2019

Note 1 - Organization and operations:

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 years ended December 31, 2019, and 2018, the volunteers who run this inspiring program bought, built, and distributed more than 4,334 and 3,923 bikes, respectively, to children in Silicon Valley.

Neonatal intensive care unit (NICU) support - SCVMC's NICU provides the highest level of care to hundreds of tiny, premature infants each year. The VMC Foundation, with the help of FIRST 5 Santa Clara County, 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 have 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 the County of Santa Clara Health System and no other hospitals in the Bay Area, can have policy implications. For this reason, the VMC Foundation is dedicated to supporting community education and outreach about The Health System's services, how local and national policy changes may affect the health systems, and how increased understanding of The Health System's role in caring for the community can drive donations, political support, and public perception. Additionally, expanding the understanding of how issues like community violence and homelessness are health crises and how Santa Clara County residents can help solve these crises has become a growing priority.

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.

Note 2 - Summary of significant accounting policies:

Basis of presentation - The Foundation reports information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions* - net assets which 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.

- *With donor restrictions* - net assets which are subject to donor-imposed restrictions that will be met rather by actions of the Foundation or the passage of time. Also included in this category are net assets 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.

Revenue recognition – Revenue from exchange transactions: The Foundation recognizes revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers. ASC 606 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

In accordance with ASC 606, the Foundation recognizes revenue upon the transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. The principles in ASC 606 are applied using the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the Foundation satisfies its performance obligation(s). The Foundation recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration. The Foundation records the following exchange transaction revenue in its statements of activities and changes in net assets for the years ending December 31, 2019 and 2018:

Program fees - The Foundation recognizes revenues from program fees in the period in which the conditions are met or the service is provided.

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

Gift Shop - The Foundation operates various gift shops in hospitals, which sell various merchandise on a retail basis to customers. The performance obligation is the delivery of the good to the customer. The transaction price is established by the Foundation based supplier cost. As each item is individually priced, no allocation of the transaction price is necessary. The Foundation recognizes revenue as the customer pays and takes possession of the merchandise. No liability for probable customer returns was considered necessary as of December 31, 2019 and 2018.

Special events - The Foundation conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the Foundation. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Foundation. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The performance obligation is delivery of the event. The event fee is set by the Foundation. FASB ASC 606 requires allocation of the transaction price to the performance obligation(s). Accordingly, the Foundation separately presents in its notes to financial statements, the exchange and contribution components of the gross proceeds from special events. For special event fees received before year-end for an event to occur after year-end, the Foundation follows AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component. Special event fees collected by the Foundation in an advance period of its delivery are initially recognized as deferred revenue and recognized as special event revenue after delivery of the event

Grant and contribution revenue - The Foundation reports contributions and grants as program revenue when received or pledged by the donor. Contributions are reported as net assets with donor restrictions if such gifts are restricted by the donor to a specific project, and/or include an explicit or implied time restriction. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from donor 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 provided 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.

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

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. Salaries are allocated to various program and supporting services based on estimated percentage of hours worked by employee. In-kind rent is allocated based on occupancy rates. All other expenses are directly allocated.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. The Foundation considers all net assets 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 receivable - 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, 2019 and 2018. Promises to give that are expected to be collected after one year are reported at present 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, 2019 and 2018.

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

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

Inventories - Inventories generally consist of merchandise for sale at the hospital gift shops, and is valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Net realizable value is the estimated selling prices in the ordinary course of business. In December 2018, the Foundation received donation of bicycles for their Turning Wheels for Kids program which were recorded as inventories and valued at fair value at the date of donation. The Foundation also purchases books for their Campaign to Support a Women and Children's Center program.

Deferred revenue - Deferred revenue consists of registration and exhibit fees paid in advance for upcoming conferences and advances related to future programs.

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.

Beneficial interest held-by-others - The Foundation maintains beneficial interest held-by-others. These interests are estimated at fair value based on a percentage of interest in the portfolio. 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.

Certificates of deposit - Certificates of deposit held for investment that are not debt securities are recognized as "Investments" on the statement of financial position. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified under current assets. Certificates of deposit with remaining maturities greater than one year are classified as non-current assets. The certificates of deposit are held with a commercial bank and mature at semi-annually beginning June 2020. All deposits are subject to Federal Deposit Insurance Corporation ("FDIC") limits.

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.

Advertising - Costs are expensed as incurred. The years ended December 31, 2019 and 2018, advertising costs were approximately $52,000 and $37,000, 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 ended December 31, 2019 and 2018, there were four donors that made up 90% and two donors that made up 57%, respectively, of total grants and contributions.

Fair value of financial instruments - Financial instruments included in the Foundation's statements of financial position as of December 31, 2019 and 2018, include cash and cash equivalents, pledges receivable, accounts receivable, prepaid expenses, investments, accounts payable and accrued expenses. For cash and cash equivalents, pledges 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.

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, 2019 and 2018, management did not identify any uncertain tax positions.

Recently adopted accounting guidance - As of January 1, 2019, the Foundation adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Results for reporting the years ending December 31, 2019 and 2018 are presented under FASB ASC Topic 606. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

During the year, the Foundation also adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under ASU 2014-09 (FASB ASC Topic 606). If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. Results for reporting the years ending December 31, 2019 and 2018 are presented under FASB ASU 2018-08. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those reporting periods. There was no material impact to the financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

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

Recent accounting pronouncements - In August 2018, FASB issued ASU 2018-13, Fair Value Measurements: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements. This ASU modifies the disclosure requirements for fair value measurements. Those modifications include the removal and addition of disclosure requirements as well as clarifying specific disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2019. Certain provisions of the ASU will be applied prospectively while the rest of the provisions will be applied retrospectively. Management has not determined the impact of this pronouncement.

In September 2020, FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is meant to improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for not-for-profit entities ("NFP"), including additional disclosure requirements for recognized contributed services. This ASU requires that all NFP receiving nonfinancial assets must present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The ASU also requires further disclosure on the contributed nonfinancial assets in the notes to the financial statements. The ASU will be applied retrospectively and is effective for fiscal years beginning after June 15, 2021, and interim periods beginning after June 15, 2022. Early adoption is permitted. Management has not determined the impact of this pronouncement.

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 had been determined that no material subsequent events require an estimate to be recorded or disclosed as of December 31, 2019, except as described in Note 14.

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Note 3 - Liquidity and availability of financial assets:

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

		2019		2018
Cash and cash equivalents	$	2,257,005	$	1,751,359
Pledges receivable, net		893,348		2,470,817
Accounts receivable		348,352		361,230
Investments		5,820,939		4,707,588
Total financial assets		9,319,644		9,290,994
Net assets with donor restrictions		(8,050,123)		(8,404,443)
Financial assets available to meet general expenditures over the next twelve months	$	1,269,521	$	886,551

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due.

Note 4 - Pledges receivable:

The Foundation received a pledge of $4 million from FIRST 5 Santa Clara County in July 2014. The Foundation received the initial payment of $100,000 in 2016. A total of $1,050,000 was paid in 2018. A total of $1,200,000 was paid in 2019. The remaining amount of $850,000 is expected to be received in 2020. The pledge has been discounted at an annual interest rate of 3.25%, with an unamortized discount of approximately $27,000 and $90,000 at December 31, 2019 and 2018, respectively.

The Foundation received a $100,000 multi-year pledge from the Davidson Family Foundation in March 2019. The Foundation received the initial payment of $20,000 in 2019 with an outstanding balance of $80,000 as of December 31, 2019. The Foundation expects to receive the remaining $80,000 each year through 2023 in $20,000 payment installments. The pledge has been discounted at an interest rate of 5.5% with an unamortized discount of approximately $10,000 at December 31, 2019.

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Note 4 - Pledges receivable (continued):

The remaining pledges receivable balance of approximately $341,000 and $21,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018.

Note 5 - Investments:

The Foundation follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting 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:

	2019	2018
Certificates of deposit	$ 375,533	$ 813,656
Fixed income	1,795,460	985,981
Beneficial interest held by others	3,659,946	2,917,951
Total investments	$ 5,830,939	$ 4,717,588

Note 5 - Investments (continued):

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

	2019	2018
Realized and unrealized gain (loss), net	$ 404,486	$ (122,151)
Interest and dividends	71,148	79,649
Interest and dividends - checking	1,104	896
Total investment income	476,738	(41,606)
Investment-related expenses	(51,421)	(51,022)
Total investment returns net of investment fees	$ 425,317	$ (92,628)

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, 2019:

	Level 1	Level 3	Total
Certificates of deposit	$ 375,533	$ -	$ 375,533
Fixed income	1,795,460	-	1,795,460
Beneficial interest held by others	-	3,659,946	3,659,946
Total investments	$ 2,170,993	$ 3,659,946	$ 5,830,939

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Note 5 - Investments (continued):

As of December 31, 2018:

	Level 1	Level 3	Total
Certificates of deposit	$ 813,656	$ -	$ 813,656
Fixed income	985,981	-	985,981
Beneficial interest held by others	-	2,917,951	2,917,951
Total investments	$ 1,799,637	$ 2,917,951	$ 4,717,588

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:

	2019	2018
Beginning balance	$ 2,917,951	$ 3,651,056
Contributions	400,000	900,000
Distributions	-	(1,500,000)
Total gains (losses), net (realized and unrealized)	377,035	(104,602)
Interest and dividend income	9,809	16,447
Investment expense	(44,849)	(44,950)
Ending balance	$ 3,659,946	$ 2,917,951

The Foundation maintains a beneficial interest in investments of Silicon Valley Community Foundation ("SVCF") which is valued by applying the percentage of ownership of the overall investment portfolio. 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. As SVCF's portfolio is composed of various investments with varying levels of observable inputs, valuation of the entire portfolio cannot be valued using observable market data. At December 31, 2019 and 2018, the VMC Foundation has no unfunded commitments and all its investments in the beneficial interest held by others 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:

		2019		2018
Vehicle	$	29,543	$	29,543
Less: Accumulated depreciation		(7,034)		(2,814)
Total property and equipment, net	$	22,509	$	26,729

The Foundation recorded approximately $4,200 and $2,800 of depreciation expense for the years ended December 31, 2019 and 2018, respectively.

Note 7 - Deferred revenue:

The activity and balances for deferred revenue from contracts with customers are shown in the following table:

		Programs		Events		Total
Balance at December 31, 2018	$	-	$	-	$	-
Payments received for future obligations		23,440		1,000		24,440
Balance at December 31, 2019	$	23,440	$	1,000	$	24,440

Note 8 - Net assets with donor restrictions:

At December 31, 2019 and 2018, the Foundation's net assets with donor restrictions consisted primarily of donations whose use was restricted by the donor to provide support for the Santa Clara Valley Health and Hospital System (SCVHHS). Net assets with donor restrictions are released when a grant is made which fulfills the intended use of the contribution. The Foundation also 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, 2019 and 2018, the Foundation has not created an endowment fund.

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Note 9 - Sales of merchandise:

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

	2019	2018
Gross receipts	$ 341,456	$ 310,803
Cost of sales		
Cost of goods sold	164,233	151,425
Other costs of sales		
Direct labor	91,708	86,825
Education and conference	640	40
Store supplies	1,745	996
Miscellaneous store expenses	9,801	7,846
Total other costs of sales	103,894	95,707
Total cost of sales	268,127	247,132
Net sales	$ 73,329	$ 63,671

Note 10 - In-kind contributions:

In-kind contributions of facilities, utilities, inventories, and other various items are recorded as contributions and expenses at their fair value at the time of contribution. In-kind support is recorded at its fair value on the date of donation. The following in-kind facilities were received by the Foundation during the years ended December 31:

	2019	2018
Inventories	$ -	$ 443,874
Occupancy	326,592	124,507
Other	49,997	36,099
Total in-kind contributions	$ 376,589	$ 604,480

The in-kind occupancy contributions above were contributed by a related party. A portion of other in-kind contributions were contributed by related parties as disclosed in Note 12.

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 year ended December 31, 2019, the Foundation received contributions from Board members and management in the amount of approximately $152,000, including in-kind contributions of approximately $22,000. For the year ended December 31, 2018, the Foundation received contributions from Board members and management in the amount of approximately $232,000, including in-kind contributions of approximately $32,000.

The Foundation received approximately $5,000 worth of computer services from a company whose Executive Director is one of the board members during the year ended December 31, 2019. There were no contributions of computer services for the year ended December 31, 2018

During the years ended December 31, 2019 and 2018, the Foundation provided a grant to an organization whose CEO is one of the board members, in the amount of approximately $89,000, for each year respectively. The Foundation also provided a $10,000 event sponsorship to the same Organization for the years ended December 31, 2019 and 2018.

See Note 10 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 year ended December 31, 2019:

	Gala Event	Heroes Run	Golf Tournament	Total
Special event income				
Tickets	$ 61,200	$ 28,205	$ 30,715	$ 120,120
Contributions	350,226	51,148	38,392	439,766
Total special event income	411,426	79,353	69,107	559,886
Special event expense	201,709	27,376	52,635	281,720
Special events, net	$ 209,717	$ 51,977	$ 16,472	$ 278,166

For the year ended December 31, 2018, special event revenues and expenses consisted of the following:

	Gala Event	Heroes Run	Golf Tournament	Total
Special event income				
Tickets	$ 75,300	$ 30,152	$ -	$ 105,452
Contributions	399,242	26,060	-	425,302
Total special event income	474,542	56,212	-	530,754
Special event expense	247,273	38,032	-	285,305
Special events, net	$ 227,269	$ 18,180	$ -	$ 245,449

Total fundraising expenses for the years ended December 31, 2019 and 2018 were approximately $1,056,000 and $952,000 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 contributes 2% of the employee's compensation and matches up to 3% of compensation. For the years ended December 31, 2019 and 2018, the Foundation contributed approximately $43,000 and $38,000, respectively, on behalf of participants of the plan.

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Note 15 - Subsequent events:

In March 2020 as the nation and the Bay Area were hit by the COVID-19 pandemic, the Foundation pivoted. The Foundation became, nearly overnight, the focal point and location donations of personal protective equipment ("PPE") and money to fight the virus country-wide. In a few short weeks, millions of dollars and items of PPE were procured and disseminated. Millions of dollars were spent on ventilators, testing equipment and other essential medical devices. Tens of thousands of meals were provided to the front-line healthcare workers, and hundreds were given hotel rooms to protect their families. Jobs, workflow and staff safety protocols were re-imagined and defined. The work continues and will until this emergency is over.

On April 20, 2020, the Foundation secured a loan in the amount of approximately $304,000 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and meets certain criteria. The Small Business Administration and the lender establish these criteria.

The unforgiven portion of the PPP loan is payable over two years, at an interest rate of 1%, with a deferral of payments for the first six months. The Foundation intends to use the proceeds for purposes consistent with the PPP. While the Foundation currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, management cannot assure that it will not take actions that could cause the Foundation to be ineligible for forgiveness of the loan, in whole or in part.