

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

FINANCIAL STATEMENTS

December 31, 2018 and 2017



MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

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INDEPENDENT AUDITOR'S REPORT

March 7, 2019

To the Board of Directors
Michigan Health Endowment Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan Health Endowment Fund (the "Fund," a Michigan non-profit Corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related statement of functional expenses for the year ended December 31, 2018, as well as the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Fund's 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund's internal control. Accordingly, we express no such opinion.

Board of Directors
Michigan Health Endowment Fund
March 7, 2019
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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility (continued)

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Health Endowment Fund as of December 31, 2018 and 2017, 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.

Adoption of New Accounting Pronouncements

As discussed in Note A, effective January 1, 2018, the Fund has adopted the disclosure provisions contained in Accounting Standards Update 2016-14, *Presentation of Financial Statements in Not-for-Profit Entities*.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018			2017		
	Operating Fund	Endowment Funds	Total All Funds	Operating Fund	Endowment Funds	Total All Funds
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 779,965	\$ 238,349	\$ 1,018,314	\$ 221,142	\$ 2,226,847	\$ 2,447,989
Accrued interest receivable	561,952	125,530	687,482	395,436	108,942	504,378
Prepaid expenses and other current assets	2,282,553		2,282,553	2,239,649		2,239,649
Total Current Assets	3,624,470	363,879	3,988,349	2,856,227	2,335,789	5,192,016
Other Assets:						
Investments (Note C)	63,607,023	121,561,154	185,168,177	60,230,314	101,390,655	161,620,969
Fixed assets (net of accumulated depreciation of \$27,256 and \$16,032 in 2018 and 2017, respectively) (Note A)	124,464		124,464	135,687		135,687
Total Other Assets	63,731,487	121,561,154	185,292,641	60,366,001	101,390,655	161,756,656
Total Assets	\$ 67,355,957	\$ 121,925,033	\$ 189,280,990	\$ 63,222,228	\$ 103,726,444	\$ 166,948,672

See notes to financial statements.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

December 31, 2018 and 2017

	2018			2017		
	Operating Fund	Endowment Funds	Total All Funds	Operating Fund	Endowment Funds	Total All Funds
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 446,773	\$ -0-	\$ 446,773	\$ 445,533	\$ -0-	\$ 445,533
Accrued payroll and related liabilities	91,076		91,076	65,696		65,696
Grants payable — current portion (Note D)	11,886,543		11,886,543	5,777,814		5,777,814
Total Current Liabilities	12,424,392	-0-	12,424,392	6,289,043	-0-	6,289,043
Long-Term Liabilities:						
Deferred compensation (Note G)	80,268		80,268	58,275		58,275
Grants payable (net of current portion) (Note D)	1,716,466		1,716,466	2,193,372		2,193,372
Total Long-Term Liabilities	1,796,734	-0-	1,796,734	2,251,647	-0-	2,251,647
Total Liabilities	14,221,126	-0-	14,221,126	8,540,690	-0-	8,540,690
Net Assets:						
Net assets without donor restrictions:						
Undesignated	23,134,831		23,134,831	20,681,538		20,681,538
Designated (Note A)	30,000,000	37,875,033	67,875,033	34,000,000	47,726,444	81,726,444
Total Net Assets without Donor Restrictions	53,134,831	37,875,033	91,009,864	54,681,538	47,726,444	102,407,982
Net assets with donor restrictions:						
Endowment funds (Note E)		82,050,000	82,050,000		54,000,000	54,000,000
Healthy Aging Initiative		2,000,000	2,000,000		2,000,000	2,000,000
Total Net Assets with Donor Restrictions	-0-	84,050,000	84,050,000	-0-	56,000,000	56,000,000
Total Net Assets	53,134,831	121,925,033	175,059,864	54,681,538	103,726,444	158,407,982
Total Liabilities and Net Assets	\$ 67,355,957	\$ 121,925,033	\$ 189,280,990	\$ 63,222,228	\$ 103,726,444	\$ 166,948,672

See notes to financial statements.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018							Total All Funds	
	Without Donor Restrictions			With Donor Restrictions				2018	2017
	Undesignated	Designated		Total without Donor Restrictions	Endowment Funds	Healthy Aging Initiative	Total with Donor Restrictions		
	Operating Fund	Operating Fund	Endowment Funds						
Revenue and Gains, Net of Losses:									
Contributions (Note E)	\$ 56,950,000	\$ -0-	\$ -0-	\$ 56,950,000	\$ 28,050,000	\$ 1,000,000	\$ 29,050,000	\$ 86,000,000	\$ 62,000,000
Net investment income (loss) (Note C)	1,645,008		(9,851,411)	(8,206,403)				(8,206,403)	17,262,755
Total Revenue and Gains, Net of Losses	58,595,008	-0-	(9,851,411)	48,743,597	28,050,000	1,000,000	29,050,000	77,793,597	79,262,755
Expenses:									
Program services:									
Grantmaking program	30,709,741			30,709,741				30,709,741	26,403,174
Medicare Supplemental Insurance Subsidy program	29,227,721			29,227,721				29,227,721	27,078,592
Total Program Services	59,937,462	-0-	-0-	59,937,462	-0-	-0-	-0-	59,937,462	53,481,766
Supporting services:									
Management and general	1,204,253			1,204,253				1,204,253	1,268,938
Total Expenses	61,141,715	-0-	-0-	61,141,715	-0-	-0-	-0-	61,141,715	54,750,704
Excess (Deficiency) of Revenue and Gains over Expenses	(2,546,707)	-0-	(9,851,411)	(12,398,118)	28,050,000	1,000,000	29,050,000	16,651,882	24,512,051
Other Changes in Net Assets:									
Net assets released from donor restrictions	1,000,000			1,000,000		(1,000,000)	(1,000,000)	-0-	-0-
Transfers for designated purposes, net (Note B)	4,000,000	(4,000,000)						-0-	-0-
Change in Net Assets	2,453,293	(4,000,000)	(9,851,411)	(11,398,118)	28,050,000	-0-	28,050,000	16,651,882	24,512,051
Net Assets, Beginning of Year	20,681,538	34,000,000	47,726,444	102,407,982	54,000,000	2,000,000	56,000,000	158,407,982	133,895,931
Net Assets, End of Year	\$ 23,134,831	\$ 30,000,000	\$ 37,875,033	\$ 91,009,864	\$ 82,050,000	\$ 2,000,000	\$ 84,050,000	\$ 175,059,864	\$ 158,407,982

See notes to financial statements.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Without Donor Restrictions				With Donor Restrictions			
	Undesignated	Designated		Total without Donor Restrictions	Endowment Funds	Healthy Aging Initiative	Total with Donor Restrictions	Total All Funds
	Operating Fund	Operating Fund	Endowment Funds					
Revenue and Gains:								
Contributions (Note E)	\$ 48,000,000	\$ -0-	\$ -0-	\$ 48,000,000	\$ 12,000,000	\$ 2,000,000	\$ 14,000,000	\$ 62,000,000
Net investment income (Note C)	973,997		16,288,758	17,262,755				17,262,755
Total Revenue and Gains	48,973,997	-0-	16,288,758	65,262,755	12,000,000	2,000,000	14,000,000	79,262,755
Expenses:								
Program services:								
Grantmaking program	26,403,174			26,403,174				26,403,174
Medicare Supplemental Insurance Subsidy program	27,078,592			27,078,592				27,078,592
Total Program Services	53,481,766	-0-	-0-	53,481,766	-0-	-0-	-0-	53,481,766
Supporting services:								
Management and general	1,268,938			1,268,938				1,268,938
Total Expenses	54,750,704	-0-	-0-	54,750,704	-0-	-0-	-0-	54,750,704
Excess (Deficiency) of Revenue and Gains over Expenses	(5,776,707)	-0-	16,288,758	10,512,051	12,000,000	2,000,000	14,000,000	24,512,051
Other Changes in Net Assets:								
Transfers for designated purposes, net (Note B)	6,000,000	(6,000,000)						-0-
Change in Net Assets	223,293	(6,000,000)	16,288,758	10,512,051	12,000,000	2,000,000	14,000,000	24,512,051
Net Assets, Beginning of Year	20,458,245	40,000,000	31,437,686	91,895,931	42,000,000		42,000,000	133,895,931
Net Assets, End of Year	\$ 20,681,538	\$ 34,000,000	\$ 47,726,444	\$ 102,407,982	\$ 54,000,000	\$ 2,000,000	\$ 56,000,000	\$ 158,407,982

See notes to financial statements.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)**

	<u>2018</u>				<u>Total Expenses</u>	
	<u>Program Services</u>			<u>Supporting Services</u>	<u>2018</u>	<u>2017</u>
	<u>Grantmaking Program</u>	<u>Medicare Supplemental Insurance Subsidy Program</u>	<u>Total Program Services</u>	<u>Management and General</u>		
Grants authorized	\$ 28,451,644	\$ -0-	\$ 28,451,644	\$ -0-	\$ 28,451,644	\$ 25,032,370
Medicare Supplemental Insurance Subsidies		26,976,324	26,976,324		26,976,324	23,302,527
Medicare Supplemental Insurance Subsidy servicing expenses		2,101,464	2,101,464		2,101,464	3,776,065
Grantmaking program support	824,016		824,016		824,016	411,924
Salaries and benefits	1,271,508	149,193	1,420,701	578,236	1,998,937	1,572,671
Legal and accounting fees				67,150	67,150	142,880
Office supplies and other expenses				85,665	85,665	69,359
Insurance				34,405	34,405	27,592
Office expenses	16,968		16,968	97,096	114,064	105,690
Contractual services	28,115	740	28,855	303,919	332,774	205,784
Travel and meetings	98,490		98,490	24,559	123,049	71,694
Memberships and dues	19,000		19,000	13,223	32,223	32,148
Total Expenses	\$ 30,709,741	\$ 29,227,721	\$ 59,937,462	\$ 1,204,253	\$ 61,141,715	\$ 54,750,704

See notes to financial statements.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Cash received from contributions	\$ 86,000,000	\$ 62,000,000
Interest and dividends received	5,773,108	4,047,134
Cash paid for grants	(22,819,821)	(26,757,843)
Cash paid for Medicare Supplemental Insurance Subsidies	(26,869,942)	(24,487,950)
Cash paid to suppliers and vendors	(3,983,800)	(4,889,356)
Cash paid for salaries and benefits	(1,951,564)	(1,543,133)
	<u>36,147,981</u>	<u>8,368,852</u>
Net Cash Flows from Operating Activities	36,147,981	8,368,852
Cash Flows from Investing Activities:		
Purchases of investments	(250,688,390)	(80,139,685)
Sales and redemptions of investments	213,110,734	73,686,111
Purchases of fixed assets	-0-	(2,839)
	<u>(37,577,656)</u>	<u>(6,456,413)</u>
Net Cash Flows from Investing Activities	(37,577,656)	(6,456,413)
Change in Cash and Cash Equivalents	(1,429,675)	1,912,439
Cash and Cash Equivalents, Beginning of Year	<u>2,447,989</u>	<u>535,550</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,018,314</u>	<u>\$ 2,447,989</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Michigan Health Endowment Fund (the “Fund”) was established in January 2014 as a Michigan non-profit Corporation. The Fund’s purpose is to support efforts that improve the health of Michigan residents while reducing costs, with a specific focus on those efforts that benefit the health and wellness of minor children and seniors. The Fund was established in accordance with State of Michigan Public Act 4 of 2013 (the “Act”).

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, which includes recognition of revenue when earned and expenses when incurred.

Adoption of New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 modifies the requirements related to financial statement presentation for non-profit organizations. The major provisions of ASU 2016-14 are as follows:

- Information about net assets and changes in net assets is reported for two classes of net assets: *net assets with donor restrictions* and *net assets without donor restrictions*.
- Reporting of expenses by both function and nature in one location is required for all non-profit organizations.
- Either the direct method or the indirect method for presenting operating cash flows may continue to be used, but the requirement for those entities using the direct method to prepare a reconciliation with the indirect method is eliminated.
- Quantitative information that communicates the availability of the organization’s financial assets as of the statement of financial position date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statements or in the notes to the financial statements.
- Qualitative information on how the organization manages its liquid available resources and liquidity risks is required to be disclosed in the notes to the financial statements.
- Reporting of the “underwater” amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about “underwater” endowments are required.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Pronouncements (continued)

- The portion of endowment funds that is not specifically restricted by donors is no longer considered to be subject to an implicit time restriction and is now classified in net assets without donor restrictions.
- Other enhanced disclosures regarding board designations and appropriations, the nature of net assets with donor restrictions, and functional expense allocation methods are required.

The Fund adopted the provisions of ASU 2016-14 as of January 1, 2018. These provisions have been retrospectively applied to the disclosures in the accompanying financial statements as of, and for the year ended, December 31, 2017, except for reporting expenses for the year ended December 31, 2017 by both function and nature and including disclosures regarding liquidity and availability of resources as of December 31, 2017, as permitted by ASU 2016-14. The adoption of this pronouncement did not impact the Fund's net assets.

Basis of Presentation

The Fund reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The Fund further reports information regarding its net assets and activities without donor restrictions separated between undesignated net assets and designated net assets.

Recognition of Contributions

Contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Unconditional contributions are recorded as support at the time verifiable evidence of the pledge is received. Conditional contributions are not recorded as support until the condition is met, at which time they become unconditional.

The Fund reports contributions of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is when a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Designated Net Assets

The Fund's Board of Directors may designate contributions or net assets without donor restrictions toward specific future Fund activities. In these cases, the contributions or net assets will be transferred to designated net assets until such time as the specific activity occurs, at which point they will be transferred back to undesignated net assets to be expended. The Fund's Board of Directors designated \$30,000,000 and \$34,000,000 for the Medicare Supplemental Insurance Subsidy program as of December 31, 2018 and 2017, respectively. The Medicare Supplemental Insurance Subsidy program is required under the Act.

Investments

The Fund's investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

Investments in registered investment companies are valued at quoted market prices, which represent the net asset value of shares held by the Fund as of the end of the year. Commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, U.S. Treasury securities, common and collective trusts, and limited partnerships which are not publicly traded on an open market are valued at quoted market prices if actively traded, or through a pricing model that utilizes benchmark yields, reported trades, active market quotes, and current spreads, among other factors.

Purchases and sales of investments are reflected on a trade-date basis. Net appreciation and depreciation include gains and losses on investments bought and sold, as well as held, during the year. Gains and losses on investments sold are generally determined on the specific identification method, with the amount realized reflecting the difference between fair value on the date of sale and original cost. Unrealized gains and losses represent the change in the fair value of investments during the year. Investment income is accrued as earned.

Cash Equivalents

For purposes of the statements of cash flows, the Fund considers all short-term, highly liquid securities purchased with original maturities of 30 days or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

Fixed assets are recorded at cost or, if donated, at fair value on the date of the donation. The costs of fixed assets have been capitalized and are being depreciated over the useful lives of the respective assets, which range from three to 40 years, using the straight-line method. The Fund's policy is to capitalize acquisitions of \$1,000 or more. Depreciation expense was \$11,224 and \$11,923 for the years ended December 31, 2018 and 2017, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Fund uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observed, corroborated, or are generally unobservable. The Fund utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Fund applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy, based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Fund has the ability to access

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

- Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability
- Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Grants

Grants, including unconditional promises to give, are recognized as expenses in the period the unconditional promises are made at their fair value. Unconditional promises to give over a future period of time are recorded at the present value of their estimated future cash flows using a discount rate that approximates the prime rate at the origination of the promise to give. Multi-year awards granted in 2018 and 2017 were discounted at the rate of 4.25 percent (which was the prime rate) as of December 31, 2018 and 2017.

Risks and Uncertainties

The Fund invests in various securities, including registered investment companies, commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, U.S. Treasury securities, common and collective trusts, and limited partnerships. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities that could materially affect the amounts reported in the financial statements will occur in the near term.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status

The Fund is organized under section 501(c)(3) of the Internal Revenue Code (“IRC”) and has received a determination of its tax-exempt status from the Internal Revenue Service as a Type I supporting organization under IRC section 509(a)(3). The Fund’s management is not aware of any uncertain tax positions or unrecognized tax benefits as of December 31, 2018 or 2017.

Concentration of Credit Risk

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash, cash equivalents, and investments.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed the federally insured limit of \$250,000 per depositor at each financial institution. As of December 31, 2018, approximately \$238,000 of the Fund’s cash equivalents was placed at a financial institution whose balances are insured by the Security Industries Protection Corporation. This insurance protects against loss of shares, but does not protect against loss of value. The remainder of the Fund’s cash and cash equivalents balance was placed at another financial institution; the entirety of this balance as of December 31, 2018 was invested in a short-term repurchase agreement which is not federally insured. Investments are diversified among various registered investment companies, commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, U.S. Treasury securities, common and collective trusts, and limited partnerships.

Allocation of Expenses

The Fund records grants issued, the Medicare Supplemental Insurance Subsidies, and related direct expenses as program service expenses. Other costs directly attributable to a function are recorded in the appropriate function. Costs not directly attributable to a function, including certain salaries and benefits, are allocated to functions based on time studies of the particular individuals.

Reclassifications

Certain reclassifications have been made to the accompanying financial statements as of, and for the year ended, December 31, 2017 to conform to classifications used as of, and for the year ended, December 31, 2018.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Fund has evaluated subsequent events through March 7, 2019, the date that the accompanying financial statements were available to be issued. The Fund did not identify any subsequent events that would require recognition or disclosure in the financial statements.

NOTE B — CONDITIONAL PROMISES TO RECEIVE

Conditional promises to receive are recognized when the conditions on which they depend are substantially met. As of December 31, 2018, the Fund has a conditional promise to receive of \$1.21 billion from Blue Cross Blue Shield of Michigan (“BCBSM”), as required by the Act. Under the agreement between the Fund and BCBSM, the payment plan is an annual cap amount scheduled to be paid on or before April 1 of each year, from 2014 through 2031, or the date when total contributions made by BCBSM to the Fund reaches \$1.56 billion. Payments vary by year, and may be accelerated or delayed upon the occurrence of various conditions. Two primary conditions relate to BCBSM achieving specified risk-based capital levels, as well as any other adjustments or relief which the Michigan Department of Insurance and Financial Services may grant.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE C — INVESTMENTS AND FAIR VALUE

The Fund's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2018 and 2017 is summarized as follows:

	<u>Fair Value Measurements</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
2018				
Assets:				
Investments at fair value:				
Registered investment companies	\$ 92,066,531	\$ -0-	\$ -0-	\$ 92,066,531
Commercial paper		20,312,410		20,312,410
Corporate bonds		47,630,405		47,630,405
Mortgage-backed and asset-backed securities		6,358,773		6,358,773
Municipal bonds		1,110,399		1,110,399
U.S. Treasury securities		3,663,790		3,663,790
	<u>\$ 92,066,531</u>	<u>\$ 79,075,777</u>	<u>\$ -0-</u>	<u>171,142,308</u>
Total Investments at Fair Value				
Investments measured at net asset value:				
Common and collective trusts				12,061,733
Limited partnerships				1,964,136
				<u>14,025,869</u>
Total Investments Measured at Net Asset Value				<u><u>\$ 185,168,177</u></u>

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)

	<u>Fair Value Measurements</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
2017				
Assets:				
Investments at fair value:				
Registered investment companies	\$ 81,440,887	\$ -0-	\$ -0-	\$ 81,440,887
Commercial paper		19,129,004		19,129,004
Corporate bonds		38,877,355		38,877,355
Mortgage-backed and asset-backed securities		6,358,938		6,358,938
Municipal bonds		5,968,841		5,968,841
U.S. Treasury securities		3,143,390		3,143,390
	<u>\$ 81,440,887</u>	<u>\$ 73,477,528</u>	<u>\$ -0-</u>	<u>154,918,415</u>
Total Investments at Fair Value				
Investments measured at net asset value:				
Common and collective trusts				6,603,909
Limited partnerships				98,645
				<u>6,702,554</u>
Total Investments Measured at Net Asset Value				
				<u><u>\$ 161,620,969</u></u>

Additional information about the nature and risk of the Fund's investments that calculate net asset value per share is as follows:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Common and collective trusts	\$ 12,061,733	\$ -0-	Monthly	30 days
Limited partnerships	1,964,136	17,043,751	Not applicable	Not allowed before liquidation
	<u>\$ 14,025,869</u>	<u>\$ 17,043,751</u>		

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)

For the years ended December 31, 2018 and 2017, the Fund's net investment income (loss) is summarized as follows:

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gain (loss)	\$ (14,030,447)	\$ 13,101,967
Interest and dividend income	<u>5,956,212</u>	<u>4,235,669</u>
	(8,074,235)	17,337,636
Less: Investment manager fees	<u>(132,168)</u>	<u>(74,881)</u>
Net Investment Income (Loss)	<u><u>\$ (8,206,403)</u></u>	<u><u>\$ 17,262,755</u></u>

NOTE D — GRANTS PAYABLE

The Fund's Board of Directors has approved grants payable in 2018 and 2017; the unpaid amounts as of December 31, 2018 and 2017, for which all conditions have been met, are scheduled to be paid as follows:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 11,886,543	\$ 5,777,814
One to five years	<u>1,738,420</u>	<u>2,309,004</u>
	13,624,963	8,086,818
Less:		
Discount (at 4.25 percent)	<u>(21,954)</u>	<u>(115,632)</u>
	<u><u>\$ 13,603,009</u></u>	<u><u>\$ 7,971,186</u></u>

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE E — ENDOWMENT FUNDS

The Fund received contributions from BCBSM as shown on the statements of activities (see Note B). The Fund may expend a portion of the contributions in each year for operations and in fulfillment of its mission to a maximum amount specified in the schedule below. In addition, the Fund must contribute to an endowment fund (the “MHEF Endowment Fund”), at a minimum, a portion of each year’s contribution according to the following schedule:

<u>Years</u>	<u>Available for Expenditure</u>	<u>Required for Endowment Fund</u>
2014-2017	80 %	20 %
2018-2021	67	33
2022-2025	60	40
2026-2031	25	75

The Fund’s Board of Directors has interpreted the Michigan Uniform Prudent Management of Institutional Funds Act (the “Michigan UPMIFA”) as requiring the preservation of the fair value of the deposits contributed to the MHEF Endowment Fund. In accordance with the Fund’s spending and endowment fund policy, the Fund classifies in net assets with donor restrictions a portion of the annual contributions not less than the minimum required to be maintained in the MHEF Endowment Fund by the schedule above. Although the income generated by the MHEF Endowment Fund may be used to support various activities of the Fund, the remaining portion of the MHEF Endowment Fund that is not classified in net assets with donor restrictions, including voluntary additional deposits authorized by the Fund’s Board of Directors, is classified in net assets without donor restrictions. Once the accumulated principal held in the MHEF Endowment Fund reaches \$750 million, that balance will be required to be maintained in perpetuity to provide ongoing income to the Fund.

The Fund also received a \$2 million contribution in 2017 from the Ralph C. Wilson Jr. Foundation to establish the Ralph C. Wilson Jr. Foundation Endowment Fund (the “Wilson Foundation Endowment Fund”), with distributions restricted to support staff dedicated to grantmaking and collaboration in the Caregivers Key Area of Focused Investment.

The Fund’s Board of Directors has interpreted the Michigan UPMIFA as requiring the preservation of the fair value of the contribution as of the gift date, absent explicit donor stipulations to the contrary. Accordingly, the Fund classifies the original value of the \$2 million contribution, as well as the remaining balance in the Wilson Foundation Endowment Fund and future contributions, in net assets with donor restrictions.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE E — ENDOWMENT FUNDS (CONTINUED)

The annual amount of income available for distributions from the Wilson Foundation Endowment Fund is five percent of the fair value of the Wilson Foundation Endowment Fund's assets, based on a 12-quarter rolling average of the fair value ending on September 30 of the prior year.

From time to time, the fair value of assets associated with individual endowment funds that have donor restrictions may fall below the level that the donor or the Michigan UPMIFA require the Fund to retain as a fund of perpetual duration. A deficiency of this nature exists in the Wilson Foundation Endowment Fund, which has an original gift value of \$2,000,000, a current fair value of \$1,847,478, and a deficiency of \$152,522 as of December 31, 2018. This deficiency resulted from unfavorable market fluctuations that occurred toward the end of 2018. There were no appropriations for expenditures from the Wilson Foundation Endowment Fund for the year ended December 31, 2018. Compensation for the support staff has been paid out of the Fund's operating fund. The balance is classified in net assets with donor restrictions.

The assets of the MHEF Endowment Fund and the Wilson Foundation Endowment Fund (collectively, the "Endowment Funds") may be invested only in securities that Michigan law permits for life insurance companies. The Fund's current policy is to allocate investments in a manner to avoid undue risk concentration in any single asset class or investment category. The general policy is also to diversify investments among industries to prevent overexposure to any one part of the economy. The asset allocation is monitored on an ongoing basis, reviewed, and rebalanced, if necessary, at least annually.

Refer to the accompanying financial statements for information regarding the composition of the balance of the Endowment Funds as of December 31, 2018 and 2017, as well as reconciliations of the fair value of the assets of the Endowment Funds for the years then ended.

The composition of net assets with donor restrictions as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Endowment Funds:		
MHEF Endowment Fund	\$ 82,050,000	\$ 54,000,000
Wilson Foundation Endowment Fund	<u>2,000,000</u>	<u>2,000,000</u>
	<u>\$ 84,050,000</u>	<u>\$ 56,000,000</u>

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE F — LEASES

The Fund leases certain facilities under operating leases which expire at various dates through April 2027.

Future minimum rental commitments are as follows:

For the Years Ending December 31:	
2019	\$ 109,688
2020	104,509
2021	86,377
2022	86,377
2023	86,377
2024-2027	<u>284,804</u>
Total Minimum Lease Payments	<u>\$ 758,132</u>

Rental expense under these leases was \$114,064 and \$101,506 for the years ended December 31, 2018 and 2017, respectively.

NOTE G — EMPLOYEE BENEFIT PLANS

The Fund established a salary deferral plan under IRC section 457(b) for key executives. As part of this plan, the Fund reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. The Fund accrues the liability at the maximum allowable federal limit each year, with an interest rate of five percent per annum, without segregating the asset. The balance in this deferred compensation plan is \$80,268 and \$58,275 as of December 31, 2018 and 2017, respectively.

The Fund also established a safe harbor thrift plan under IRC section 403(b) to enable its employees to accumulate long-term savings for retirement. The Fund makes matching contributions at 100 percent of employee contributions, up to three percent of eligible employees' compensation, and at 50 percent of employee contributions exceeding three percent, but not exceeding five percent, of compensation. For the years ended December 31, 2018 and 2017, the Fund contributed \$50,820 and \$38,506, respectively.

MICHIGAN HEALTH ENDOWMENT FUND
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

NOTE H — LIQUIDITY AND AVAILABILITY OF RESOURCES

The Fund considers only operating fund financial assets to be available for general expenditures within one year. As of December 31, 2018, such financial assets are as follows:

Cash and cash equivalents	\$ 779,965
Accrued interest receivable	561,952
Investments	<u>63,607,023</u>

Financial Assets Available to Meet General Expenditures within One Year	<u><u>\$ 64,948,940</u></u>
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As of December 31, 2018, the Fund has \$64,948,940 in financial assets available for operations, including payment of prior grant obligations, as reflected on the accompanying statements of financial position. The Fund invests its liquid assets into short-term bonds and money market funds, and targets the maturities of those investments to meet the Fund's anticipated expenditures.

NOTE I — NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016. ASU 2016-02 requires the recognition by lessees of assets and liabilities that arise from all lease transactions, except for leases with a lease term of 12 months or less. The lessee accounting model under ASU 2016-02 retains two types of leases: finance leases, which are to be accounted for in substantially the same manner as the existing accounting for capital leases, and operating leases, which are to be accounted for (both in the statement of activities and the statement of cash flows) in a manner consistent with existing accounting for operating leases. ASU 2016-02 also requires expanded qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 applies to the Fund's financial statements for the year ending December 31, 2020, with earlier implementation permitted. The Fund's management has not determined the impact on its financial statements as a result of implementing ASU 2016-02.