

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

FINANCIAL STATEMENTS

December 31, 2015 and 2014



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

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INDEPENDENT AUDITOR'S REPORT

March 24, 2016

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, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, 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 24, 2016
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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, 2015 and 2014, 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.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015			2014		
	Operating Fund	Endowment Fund	Total All Funds	Operating Fund	Endowment Fund	Total All Funds
ASSETS						
Current Assets:						
Cash and cash equivalents (Note C)	\$ 6,981,383	\$ -0-	\$ 6,981,383	\$ 43,988,294	\$ 11,594,580	\$ 55,582,874
Other current assets	533,135		533,135	351,605		351,605
Total Current Assets	7,514,518	-0-	7,514,518	44,339,899	11,594,580	55,934,479
Other Assets:						
Investments (Note C)	57,311,792	57,957,711	115,269,503		35,984,007	35,984,007
Fixed assets (net of accumulated depreciation of \$795 in 2015)	2,780		2,780			-0-
Total Other Assets	57,314,572	57,957,711	115,272,283	-0-	35,984,007	35,984,007
Total Assets	\$ 64,829,090	\$ 57,957,711	\$ 122,786,801	\$ 44,339,899	\$ 47,578,587	\$ 91,918,486

See notes to financial statements.

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

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

December 31, 2015 and 2014

	2015			2014		
	Operating Fund	Endowment Fund	Total All Funds	Operating Fund	Endowment Fund	Total All Funds
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts payable	\$ 71,054	\$ -0-	\$ 71,054	\$ 120,012	\$ -0-	\$ 120,012
Accrued payroll and other liabilities	103,600		103,600			-0-
Grants payable - current portion (Note D)	24,597,547		24,597,547	18,600,000		18,600,000
Total Current Liabilities	24,772,201	-0-	24,772,201	18,720,012	-0-	18,720,012
Long-Term Liabilities:						
Grants payable (net of current portion) (Note D)	339,575		339,575	11,998,650		11,998,650
Total Liabilities	25,111,776	-0-	25,111,776	30,718,662	-0-	30,718,662
Net Assets:						
Unrestricted:						
Undesignated	14,717,314		14,717,314	13,621,237		13,621,237
Designated (Note A)	25,000,000		25,000,000			-0-
Total Unrestricted Net Assets	39,717,314	-0-	39,717,314	13,621,237	-0-	13,621,237
Endowment fund:						
Temporarily restricted		27,957,711	27,957,711		27,578,587	27,578,587
Permanently restricted		30,000,000	30,000,000		20,000,000	20,000,000
Total Endowment Fund Net Assets	-0-	57,957,711	57,957,711	-0-	47,578,587	47,578,587
Total Net Assets	39,717,314	57,957,711	97,675,025	13,621,237	47,578,587	61,199,824
Total Liabilities and Net Assets	\$ 64,829,090	\$ 57,957,711	\$ 122,786,801	\$ 44,339,899	\$ 47,578,587	\$ 91,918,486

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

**For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

	2015						Total All Funds	
	Operating Fund		Endowment Fund			Total Endowment Fund	2015	2014
	Undesignated	Designated	Total Operating Fund	Temporarily Restricted	Permanently Restricted			
Revenue:								
Contributions (Note E)	\$ 40,000,000	\$ -0-	\$ 40,000,000	\$ -0-	\$ 10,000,000	\$ 10,000,000	\$ 50,000,000	\$ 100,000,000
Net investment income (Note C)	384,275		384,275	379,124		379,124	763,399	147,449
Total Revenue	40,384,275	-0-	40,384,275	379,124	10,000,000	10,379,124	50,763,399	100,147,449
Expenses:								
Program services:								
Grants authorized	12,938,571		12,938,571				12,938,571	37,698,650
Administrative expenses:								
Contractual services	687,434		687,434				687,434	1,195,491
Other expenses	662,193		662,193				662,193	53,484
Total Expenses	14,288,198	-0-	14,288,198	-0-	-0-	-0-	14,288,198	38,947,625
Excess of Revenue over Expenses	26,096,077	-0-	26,096,077	379,124	10,000,000	10,379,124	36,475,201	61,199,824
Other Changes in Net Assets:								
Transfers for designated purposes (Note B)	(25,000,000)	25,000,000	-0-				-0-	-0-
Net Increase in Net Assets	1,096,077	25,000,000	26,096,077	379,124	10,000,000	10,379,124	36,475,201	61,199,824
Net Assets, Beginning of Year	13,621,237		13,621,237	27,578,587	20,000,000	47,578,587	61,199,824	-0-
Net Assets, End of Year	\$ 14,717,314	\$ 25,000,000	\$ 39,717,314	\$ 27,957,711	\$ 30,000,000	\$ 57,957,711	\$ 97,675,025	\$ 61,199,824

See notes to financial statements.

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

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

	Operating Fund		Endowment Fund			Total All Funds
	Undesignated	Temporarily Restricted	Permanently Restricted	Total Endowment Fund	Total All Funds	
Revenue:						
Contributions (Note E)	\$ 52,500,000	\$ 27,500,000	\$ 20,000,000	\$ 47,500,000	\$ 100,000,000	
Net investment income (Note C)	68,862	78,587		78,587	147,449	
Total Revenue	52,568,862	27,578,587	20,000,000	47,578,587	100,147,449	
Expenses:						
Program services:						
Grants authorized	37,698,650				37,698,650	
Administrative expenses:						
Contractual services	1,195,491				1,195,491	
Other expenses	53,484				53,484	
Total Expenses	38,947,625	-0-	-0-	-0-	38,947,625	
Net Increase in Net Assets	13,621,237	27,578,587	20,000,000	47,578,587	61,199,824	
Net Assets, Beginning of Year						-0-
Net Assets, End of Year	\$ 13,621,237	\$ 27,578,587	\$ 20,000,000	\$ 47,578,587	\$ 61,199,824	

See notes to financial statements.

MICHIGAN HEALTH ENDOWMENT FUND
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STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from contributions	\$ 50,000,000	\$ 100,000,000
Interest and dividends received	5,643	26,564
Cash paid for administrative expenses	(1,307,571)	(1,141,144)
Cash paid for grants	(18,600,099)	(7,100,000)
	<u>30,097,973</u>	<u>91,785,420</u>
Net Cash Provided by Operating Activities		
	30,097,973	91,785,420
Cash Flows from Investing Activities:		
Purchases of investments	(322,713,646)	(205,571,384)
Sales and redemptions of investments	244,017,757	169,368,838
Purchases of fixed assets	(3,575)	-0-
	<u>(78,699,464)</u>	<u>(36,202,546)</u>
Net Cash Provided (Used) by Investing Activities		
	(78,699,464)	(36,202,546)
Net Increase (Decrease) in Cash and Cash Equivalents	(48,601,491)	55,582,874
Cash and Cash Equivalents Balance, Beginning of Year	<u>55,582,874</u>	<u>-0-</u>
Cash and Cash Equivalents Balance, End of Year	<u>\$ 6,981,383</u>	<u>\$ 55,582,874</u>

See notes to financial statements.

MICHIGAN HEALTH ENDOWMENT FUND
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STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Net Increase in Net Assets to Cash Flows from Operating Activities:		
Net increase in net assets	\$ 36,475,201	\$ 61,199,824
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(589,607)	218,539
Depreciation	795	-0-
(Increase) decrease in other current assets	(181,530)	(351,605)
Increase (decrease) in:		
Accounts payable	(48,958)	120,012
Accrued payroll and other liabilities	103,600	-0-
Grants payable	(5,661,528)	30,598,650
	<u>(5,661,528)</u>	<u>30,598,650</u>
Net Cash Provided by Operating Activities	<u>\$ 30,097,973</u>	<u>\$ 91,785,420</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 quality of health care while reducing costs to residents of the State of Michigan, with a specific focus on those efforts that benefit the health and wellness of minor children and seniors in specific areas. 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.

Basis of Presentation

The Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Fund further reports information regarding its unrestricted net assets and activities separated between undesignated net assets and designated net assets.

Recognition of Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, 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 restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

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

Designated Net Assets

The Fund's Board of Directors may designate unrestricted contributions or net assets 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. In 2015, the Fund's Board of Directors designated \$2 million toward the Fund's 2015 Local Impact Grant program, which will be completed in 2016, and \$23 million toward the Fund's 2017 Medicare Supplemental Insurance Subsidy program, a program that 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).

Commercial paper, corporate bonds, asset-backed securities, and U.S. Treasury securities 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 includes 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, 2015 and 2014

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

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
- 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

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

Fair Value Measurements (continued)

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 2014 were discounted at the rate of 3.25 percent, which was the prime rate as of December 31, 2015 and 2014. There were no multi-year grants awarded during 2015.

Risks and Uncertainties

The Fund invests in various securities, including commercial paper, corporate bonds, asset-backed securities, and U.S. Treasury securities. 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.

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 (“IRS”) as a Type I supporting organization under IRC section 509(a)(3). The Fund’s management is not aware of any unrecognized tax benefits as of December 31, 2015 or 2014. The Fund is subject to federal income tax examinations by the IRS for all years of its existence.

Concentration of Credit Risk

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

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

Concentration of Credit Risk (continued)

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. Cash and cash equivalents on deposit in excess of the federally insured limit as of December 31, 2015 approximated \$6.75 million. Investments are diversified among various commercial paper, corporate bonds, asset-backed securities, and U.S. Treasury securities.

Allocation of Expenses

The Fund records grants issued as program service expenses. All other expenses, including certain costs that may support the Fund's program services, are reported as administrative expenses in the accompanying statements of activities.

Subsequent Events

The Fund has evaluated subsequent events through March 24, 2016, 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, 2015, the Fund has a conditional promise to receive of \$1.41 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
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

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, 2015 and 2014 are 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>	
2015				
Assets:				
Investments at fair value:				
Commercial paper	\$ -0-	\$ 40,886,922	\$ -0-	\$ 40,886,922
Corporate bonds		48,076,966		48,076,966
Asset-backed securities		2,747,855		2,747,855
U.S. Treasury securities		23,557,760		23,557,760
Total Investments	-0-	115,269,503	-0-	115,269,503
Cash and cash equivalents:				
Money market funds	1,565			1,565
Cash	6,979,818			6,979,818
Total Cash and Cash Equivalents	6,981,383	-0-	-0-	6,981,383
	\$ 6,981,383	\$ 115,269,503	\$ -0-	\$ 122,250,886

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

NOTE C - INVESTMENTS AND FAIR VALUE (CONTINUED)

	Fair Value Measurements			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2014				
Assets:				
Investments at fair value:				
Commercial paper	\$ -0-	\$ 4,993,200	\$ -0-	\$ 4,993,200
Corporate bonds		27,010,291		27,010,291
Asset-backed securities		3,980,516		3,980,516
Total Investments	-0-	35,984,007	-0-	35,984,007
Cash and cash equivalents:				
Money market funds	47,447,454			47,447,454
Cash	8,135,420			8,135,420
Total Cash and Cash Equivalents	55,582,874	-0-	-0-	55,582,874
	\$ 55,582,874	\$ 35,984,007	\$ -0-	\$ 91,566,881

For the years ended December 31, 2015 and 2014, the Fund's net investment income is summarized as follows:

	2015	2014
Net realized and unrealized gain (loss)	\$ 589,607	\$ (218,539)
Interest income	173,792	365,988
Net Investment Income	\$ 763,399	\$ 147,449

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

NOTE D - GRANTS PAYABLE

The Fund's Board of Directors has approved grants payable in 2015 and 2014; the unpaid amounts as of December 31, 2015 and 2014, for which all conditions have been met, are scheduled to be paid as follows:

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 24,597,547	\$ 18,600,000
One to five years	400,000	12,450,000
	<u>24,997,547</u>	<u>31,050,000</u>
Less: Discount (at 3.25 percent)	<u>(60,425)</u>	<u>(451,350)</u>
	<u><u>\$ 24,937,122</u></u>	<u><u>\$ 30,598,650</u></u>

NOTE E - ENDOWMENT FUND

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, 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

NOTE E - ENDOWMENT FUND (CONTINUED)

The Fund's Board of Directors has interpreted the Michigan Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the deposits contributed to the endowment fund. In accordance with a spending and endowment fund policy adopted on June 16, 2014, the Fund classifies in permanently restricted net assets a portion of the annual contributions not less than the minimum required to be maintained in the endowment fund by the schedule above. Although the income generated by the endowment fund may be used to support various activities of the Fund, the remaining portion of the endowment fund that is not classified in permanently restricted net assets, including voluntary additional deposits authorized by the Fund's Board of Directors, is subject to a time restriction and, therefore, is classified in temporarily restricted net assets. Once the accumulated principal held in the endowment fund reaches \$750 million, that balance will be required to be maintained in perpetuity to provide ongoing income to the Fund.

The Endowment Fund assets may be invested only in securities that Michigan law permits for life insurance companies. The Fund's current policy is to allocate investments between fixed income securities and cash equivalents 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 endowment fund balance as of December 31, 2015 and 2014, as well as reconciliations of the fair value of endowment fund assets for the years then ended.

NOTE F - NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in May 2015. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and also removes the requirement to make certain disclosures for those investments that are eligible to be measured at fair value using the net asset value per share practical expedient but for which the entity has not elected to measure the fair value using that practical expedient. ASU 2015-07 applies to the Fund's financial statements for the year ending December 31, 2017, with earlier implementation permitted, and is to be applied retrospectively. The Fund's management has not determined the impact on its financial statements as a result of implementing ASU 2015-07.

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015 and 2014

NOTE F - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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.