

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

FINANCIAL STATEMENTS

December 31, 2016 and 2015



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

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INDEPENDENT AUDITOR'S REPORT

April 3, 2017

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, 2016 and 2015, 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
April 3, 2017
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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, 2016 and 2015, 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, 2016 and 2015

	2016			2015		
	Operating Fund	Endowment Fund	Total All Funds	Operating Fund	Endowment Fund	Total All Funds
ASSETS						
Current Assets:						
Cash and cash equivalents (Note C)	\$ 475,839	\$ 59,711	\$ 535,550	\$ 6,981,383	\$ -0-	\$ 6,981,383
Accrued interest receivable	230,812	85,031	315,843	507,573		507,573
Prepaid expenses and other current assets	1,005,187		1,005,187	25,562		25,562
Total Current Assets	1,711,838	144,742	1,856,580	7,514,518	-0-	7,514,518
Other Assets:						
Investments (Note C)	68,772,484	73,292,944	142,065,428	57,311,792	57,957,711	115,269,503
Fixed assets (net of accumulated depreciation of \$4,109 and \$795 in 2016 and 2015, respectively) (Note A)	144,771		144,771	2,780		2,780
Total Other Assets	68,917,255	73,292,944	142,210,199	57,314,572	57,957,711	115,272,283
Total Assets	\$ 70,629,093	\$ 73,437,686	\$ 144,066,779	\$ 64,829,090	\$ 57,957,711	\$ 122,786,801

See notes to financial statements.

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

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

December 31, 2016 and 2015

	2016			2015		
	Operating Fund	Endowment Fund	Total All Funds	Operating Fund	Endowment Fund	Total All Funds
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 379,756	\$ -0-	\$ 379,756	\$ 126,779	\$ -0-	\$ 126,779
Accrued payroll and related liabilities	94,433		94,433	47,875		47,875
Grants payable - current portion (Note D)	8,777,565		8,777,565	24,597,547		24,597,547
Total Current Liabilities	9,251,754	-0-	9,251,754	24,772,201	-0-	24,772,201
Long-Term Liabilities:						
Grants payable (net of current portion) (Note D)	919,094		919,094	339,575		339,575
Total Liabilities	10,170,848	-0-	10,170,848	25,111,776	-0-	25,111,776
Net Assets:						
Unrestricted:						
Undesignated	20,458,245		20,458,245	14,717,314		14,717,314
Designated (Note A)	40,000,000		40,000,000	25,000,000		25,000,000
Total Unrestricted Net Assets	60,458,245	-0-	60,458,245	39,717,314	-0-	39,717,314
Endowment fund:						
Temporarily restricted		31,437,686	31,437,686		27,957,711	27,957,711
Permanently restricted		42,000,000	42,000,000		30,000,000	30,000,000
Total Endowment Fund Net Assets	-0-	73,437,686	73,437,686	-0-	57,957,711	57,957,711
Total Net Assets	60,458,245	73,437,686	133,895,931	39,717,314	57,957,711	97,675,025
Total Liabilities and Net Assets	\$ 70,629,093	\$ 73,437,686	\$ 144,066,779	\$ 64,829,090	\$ 57,957,711	\$ 122,786,801

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	2016						Total All Funds	
	Operating Fund		Endowment Fund			2016	2015	
	Undesignated	Designated	Total Operating Fund	Temporarily Restricted	Permanently Restricted			Total Endowment Fund
Revenue:								
Contributions (Note E)	\$ 48,000,000	\$ -0-	\$ 48,000,000	\$ -0-	\$ 12,000,000	\$ 60,000,000	\$ 50,000,000	
Net investment income (Note C)	727,483		727,483	3,479,975	3,479,975	4,207,458	763,399	
Total Revenue	48,727,483	-0-	48,727,483	3,479,975	12,000,000	64,207,458	50,763,399	
Expenses:								
Program services:								
Grants authorized	23,445,078		23,445,078			23,445,078	12,938,571	
Other program service expenses	3,473,093		3,473,093			3,473,093	499,576	
Administrative expenses:								
Salaries and benefits	635,038		635,038			635,038	459,524	
Contractual services	248,951		248,951			248,951	282,307	
Other expenses	184,392		184,392			184,392	108,220	
Total Expenses	27,986,552	-0-	27,986,552	-0-	-0-	27,986,552	14,288,198	
Excess of Revenue over Expenses	20,740,931	-0-	20,740,931	3,479,975	12,000,000	36,220,906	36,475,201	
Other Changes in Net Assets:								
Transfers for designated purposes, net (Note B)	(15,000,000)	15,000,000	-0-			-0-	-0-	
Net Increase in Net Assets	5,740,931	15,000,000	20,740,931	3,479,975	12,000,000	36,220,906	36,475,201	
Net Assets, Beginning of Year	14,717,314	25,000,000	39,717,314	27,957,711	30,000,000	97,675,025	61,199,824	
Net Assets, End of Year	\$ 20,458,245	\$ 40,000,000	\$ 60,458,245	\$ 31,437,686	\$ 42,000,000	\$ 133,895,931	\$ 97,675,025	

See notes to financial statements.

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

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

	Operating Fund		Endowment Fund			Total All Funds
	Undesignated	Designated	Total Operating Fund	Temporarily Restricted	Permanently Restricted	
Revenue:						
Contributions (Note E)	\$ 40,000,000	\$ -0-	\$ 40,000,000	\$ -0-	\$ 10,000,000	\$ 50,000,000
Net investment income (Note C)	384,275		384,275	379,124		763,399
Total Revenue	40,384,275	-0-	40,384,275	379,124	10,000,000	50,763,399
Expenses:						
Program services:						
Grants authorized	12,938,571		12,938,571			12,938,571
Other program service expenses	499,576		499,576			499,576
Administrative expenses:						
Salaries and benefits	459,524		459,524			459,524
Contractual services	282,307		282,307			282,307
Other expenses	108,220		108,220			108,220
Total Expenses	14,288,198	-0-	14,288,198	-0-	-0-	14,288,198
Excess of Revenue over Expenses	26,096,077	-0-	26,096,077	379,124	10,000,000	36,475,201
Other Changes in Net Assets:						
Transfers for designated purposes, net (Note B)	(25,000,000)	25,000,000	-0-			-0-
Net Increase in Net Assets	1,096,077	25,000,000	26,096,077	379,124	10,000,000	36,475,201
Net Assets, Beginning of Year	13,621,237		13,621,237	27,578,587	20,000,000	61,199,824
Net Assets, End of Year	\$ 14,717,314	\$ 25,000,000	\$ 39,717,314	\$ 27,957,711	\$ 30,000,000	\$ 97,675,025

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Cash received from contributions	\$ 60,000,000	\$ 50,000,000
Interest received	235,343	5,643
Cash paid for grants	(38,685,541)	(18,600,099)
Cash paid to suppliers and vendors	(4,629,770)	(895,922)
Cash paid for salaries and benefits	(588,480)	(411,649)
	<u>16,331,552</u>	<u>30,097,973</u>
Net Cash Provided by Operating Activities	<u>16,331,552</u>	<u>30,097,973</u>
Cash Flows from Investing Activities:		
Purchases of investments	(140,239,318)	(322,713,646)
Sales and redemptions of investments	117,607,238	244,017,757
Purchases of fixed assets	(145,305)	(3,575)
	<u>(22,777,385)</u>	<u>(78,699,464)</u>
Net Cash Provided (Used) by Investing Activities	<u>(22,777,385)</u>	<u>(78,699,464)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,445,833)	(48,601,491)
Cash and Cash Equivalents Balance, Beginning of Year	<u>6,981,383</u>	<u>55,582,874</u>
Cash and Cash Equivalents Balance, End of Year	<u>\$ 535,550</u>	<u>\$ 6,981,383</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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.

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

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. Outstanding balances designated by the Fund's Board of Directors as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Medicare Supplemental Insurance Subsidy program	\$ 40,000,000	\$ 23,000,000
2015 Local Impact Grant program	-0-	2,000,000
	<u>\$ 40,000,000</u>	<u>\$ 25,000,000</u>

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, 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

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

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

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

Fair Value Measurements (continued)

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

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 2016 were discounted at the rate of 3.75 percent, which was the prime rate as of December 31, 2016. There were no multi-year grants awarded during 2015.

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, 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, 2016 and 2015

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 unrecognized tax benefits as of December 31, 2016 or 2015.

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. Cash and cash equivalents on deposit did not exceed the federally insured limit as of December 31, 2016. Investments are diversified among various registered investment companies, commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, U.S. Treasury securities, and limited partnerships.

Allocation of Expenses

The Fund records grants issued as program service expenses, as well as other direct expenses and an allocation of indirect costs incurred to administer the grant program, based on management’s estimates. All other expenses are reported as administrative expenses in the accompanying statements of activities.

Reclassifications

Certain reclassifications have been made to the accompanying 2015 financial statements to conform to classifications used in 2016.

Subsequent Events

The Fund has evaluated subsequent events through April 3, 2017, 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

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, 2016, the Fund has a conditional promise to receive of \$1.35 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.

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, 2016 and 2015 are summarized as follows:

	<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>
2016				
Assets:				
Investments at fair value:				
Registered investment companies	\$ 64,790,644	\$ -0-	\$ -0-	\$ 64,790,644
Commercial paper		41,267,420		41,267,420
Corporate bonds		19,100,937		19,100,937
Mortgage-backed and asset-backed securities		8,633,792		8,633,792
Municipal bonds		4,778,232		4,778,232
U.S. Treasury securities		485,130		485,130
Limited partnership		3,009,273		3,009,273
Total Investments	\$ 64,790,644	\$ 77,274,784	\$ -0-	\$ 142,065,428

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

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)	
2016 (continued)				
Assets (continued):				
Cash and cash equivalents:				
Money market funds	\$ 59,711	\$ -0-	\$ -0-	\$ 59,711
Cash	475,839			475,839
Total Cash and Cash Equivalents	535,550	-0-	-0-	535,550
	\$ 65,326,194	\$ 77,274,784	\$ -0-	\$ 142,600,978
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, 2016 and 2015

NOTE C - INVESTMENTS AND FAIR VALUE (CONTINUED)

For the years ended December 31, 2016 and 2015, the Fund's net investment income is summarized as follows:

	<u>2016</u>	<u>2015</u>
Net realized and unrealized gain	\$ 4,163,845	\$ 589,607
Interest income	<u>43,613</u>	<u>173,792</u>
Net Investment Income	<u><u>\$ 4,207,458</u></u>	<u><u>\$ 763,399</u></u>

NOTE D - GRANTS PAYABLE

The Fund's Board of Directors has approved grants payable in 2016 and 2015; the unpaid amounts as of December 31, 2016 and 2015, for which all conditions have been met, are scheduled to be paid as follows:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 8,777,565	\$ 24,597,547
One to five years	<u>960,347</u>	<u>400,000</u>
	9,737,912	24,997,547
Less:		
Discount (at 3.75 percent and 3.25 percent for 2016 and 2015, respectively)	<u>(41,253)</u>	<u>(60,425)</u>
	<u><u>\$ 9,696,659</u></u>	<u><u>\$ 24,937,122</u></u>

NOTE E - ENDOWMENT FUND

The Fund received contributions from BCBSM as shown on the statements of activities (see Note B).

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE E - ENDOWMENT FUND (CONTINUED)

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

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 the Fund's spending and endowment fund policy, 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, 2016 and 2015, as well as reconciliations of the fair value of endowment fund assets for the years then ended.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

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:	
2017	\$ 99,970
2018	86,377
2019	86,377
2020	86,377
2021	86,377
2022-2027	<u>457,558</u>
Total Minimum Lease Payments	<u>\$ 903,036</u>

Rental expense under these leases was \$30,118 and \$11,496 for the years ended December 31, 2016 and 2015, respectively.

NOTE G - 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE G - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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.

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. 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 will be 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 will be 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 will be 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 will be 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 will be 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 will be required.
- Other enhanced disclosures regarding board designations and appropriations, the nature of net assets with donor restrictions, and functional expense allocation methods will also be required.

ASU 2016-14 applies to the Fund's financial statements for the year ending December 31, 2018, with earlier implementation permitted, and is to be applied retrospectively, with certain disclosure exceptions in the year of implementation. The Fund's management has not determined the impact on its financial statements as a result of implementing ASU 2016-14.