

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

FINANCIAL STATEMENTS

December 31, 2019 and 2018

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

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INDEPENDENT AUDITOR'S REPORT

April 3, 2020

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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2020
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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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

George Johnson & Company

CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	2019			2018		
	Operating Fund	Endowment Funds	Total All Funds	Operating Fund	Endowment Funds	Total All Funds
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 1,298,327	\$ 1,105,809	\$ 2,404,136	\$ 779,965	\$ 238,349	\$ 1,018,314
Accrued interest receivable	444,559	167,823	612,382	561,952	125,530	687,482
Prepaid expenses and other current assets	1,841,303		1,841,303	2,282,553		2,282,553
Total Current Assets	3,584,189	1,273,632	4,857,821	3,624,470	363,879	3,988,349
Other Assets:						
Investments (Note C)	60,320,529	176,701,814	237,022,343	63,607,023	121,561,154	185,168,177
Fixed assets (net of accumulated depreciation of \$37,329 and \$27,256 in 2019 and 2018, respectively) (Note A)	281,507		281,507	124,464		124,464
Total Other Assets	60,602,036	176,701,814	237,303,850	63,731,487	121,561,154	185,292,641
Total Assets	\$ 64,186,225	\$ 177,975,446	\$ 242,161,671	\$ 67,355,957	\$ 121,925,033	\$ 189,280,990

See notes to financial statements.

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

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

December 31, 2019 and 2018

	2019			2018		
	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	\$ 757,401	\$ -0-	\$ 757,401	\$ 446,773	\$ -0-	\$ 446,773
Accrued payroll and related liabilities	148,793		148,793	91,076		91,076
Grants payable — current portion (Note D)	12,724,457		12,724,457	11,886,543		11,886,543
Total Current Liabilities	13,630,651	-0-	13,630,651	12,424,392	-0-	12,424,392
Long-Term Liabilities:						
Deferred compensation (Note G)	103,903		103,903	80,268		80,268
Grants payable (net of current portion) (Note D)	2,646,876		2,646,876	1,716,466		1,716,466
Total Long-Term Liabilities	2,750,779	-0-	2,750,779	1,796,734	-0-	1,796,734
Total Liabilities	16,381,430	-0-	16,381,430	14,221,126	-0-	14,221,126
Net Assets:						
Net assets without donor restrictions:						
Undesignated	23,304,795		23,304,795	23,134,831		23,134,831
Designated (Note A)	24,500,000	65,875,446	90,375,446	30,000,000	37,875,033	67,875,033
Total Net Assets without Donor Restrictions	47,804,795	65,875,446	113,680,241	53,134,831	37,875,033	91,009,864
Net assets with donor restrictions:						
Endowment funds (Note E)		110,100,000	110,100,000		82,050,000	82,050,000
Healthy Aging Initiative		2,000,000	2,000,000		2,000,000	2,000,000
Total Net Assets with Donor Restrictions	-0-	112,100,000	112,100,000	-0-	84,050,000	84,050,000
Total Net Assets	47,804,795	177,975,446	225,780,241	53,134,831	121,925,033	175,059,864
Total Liabilities and Net Assets	\$ 64,186,225	\$ 177,975,446	\$ 242,161,671	\$ 67,355,957	\$ 121,925,033	\$ 189,280,990

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	2019							Total All Funds	
	Without Donor Restrictions				With Donor Restrictions			2019	2018
	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	\$ -0-	\$ 28,050,000	\$ 85,000,000	\$ 86,000,000
Net investment income (loss) (Note C)	2,137,435		28,101,173	30,238,608				30,238,608	(8,206,403)
Total Revenue and Gains, Net of Losses	59,087,435	-0-	28,101,173	87,188,608	28,050,000	-0-	28,050,000	115,238,608	77,793,597
Expenses:									
Program services:									
Grantmaking program	37,727,686			37,727,686				37,727,686	30,709,741
Medicare Supplemental Insurance Subsidy program	25,181,467			25,181,467				25,181,467	29,227,721
Total Program Services	62,909,153	-0-	-0-	62,909,153	-0-	-0-	-0-	62,909,153	59,937,462
Supporting services:									
Management and general	1,609,078			1,609,078				1,609,078	1,204,253
Total Expenses	64,518,231	-0-	-0-	64,518,231	-0-	-0-	-0-	64,518,231	61,141,715
Excess (Deficiency) of Revenue and Gains over Expenses	(5,430,796)	-0-	28,101,173	22,670,377	28,050,000	-0-	28,050,000	50,720,377	16,651,882
Other Changes in Net Assets:									
Transfers for designated purposes, net (Note B)	5,600,760	(5,500,000)	(100,760)					-0-	-0-
Change in Net Assets	169,964	(5,500,000)	28,000,413	22,670,377	28,050,000	-0-	28,050,000	50,720,377	16,651,882
Net Assets, Beginning 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
Net Assets, End of Year	\$ 23,304,795	\$ 24,500,000	\$ 65,875,446	\$ 113,680,241	\$ 110,100,000	\$ 2,000,000	\$ 112,100,000	\$ 225,780,241	\$ 175,059,864

See notes to financial statements.

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

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	Without Donor Restrictions			With Donor Restrictions				Total All Funds
	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
Net investment income (loss) (Note C)	1,645,008		(9,851,411)	(8,206,403)				(8,206,403)
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
Expenses:								
Program services:								
Grantmaking program	30,709,741			30,709,741				30,709,741
Medicare Supplemental Insurance Subsidy program	29,227,721			29,227,721				29,227,721
Total Program Services	59,937,462	-0-	-0-	59,937,462	-0-	-0-	-0-	59,937,462
Supporting services:								
Management and general	1,204,253			1,204,253				1,204,253
Total Expenses	61,141,715	-0-	-0-	61,141,715	-0-	-0-	-0-	61,141,715
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
Other Changes in Net Assets:								
Net assets released from donor restrictions	1,000,000			1,000,000		(1,000,000)	(1,000,000)	-0-
Transfers for designated purposes, net (Note B)	4,000,000	(4,000,000)						-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
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
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

See notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)**

	<u>2019</u>				<u>Total Expenses</u>	
	<u>Program Services</u>			<u>Supporting Services</u>	<u>2019</u>	<u>2018</u>
	<u>Grantmaking Program</u>	<u>Medicare Supplemental Insurance Subsidy Program</u>	<u>Total Program Services</u>	<u>Management and General</u>		
Grants authorized	\$ 33,255,575	\$ -0-	\$ 33,255,575	\$ -0-	\$ 33,255,575	\$ 28,451,644
Medicare Supplemental Insurance Subsidies		23,234,960	23,234,960		23,234,960	26,976,324
Medicare Supplemental Insurance Subsidy servicing expenses		1,922,024	1,922,024		1,922,024	2,101,464
Grantmaking program support	2,273,462		2,273,462		2,273,462	824,016
Salaries and benefits	1,931,015	23,308	1,954,323	868,410	2,822,733	1,998,937
Legal and accounting fees				70,722	70,722	67,150
Office supplies and other expenses				68,182	68,182	85,665
Insurance				29,150	29,150	34,405
Office expenses	89,764		89,764	45,979	135,743	114,064
Contractual services	151,870	1,175	153,045	472,703	625,748	332,774
Travel and meetings				35,834	35,834	123,049
Memberships and dues	26,000		26,000	18,098	44,098	32,223
Total Expenses	\$ 37,727,686	\$ 25,181,467	\$ 62,909,153	\$ 1,609,078	\$ 64,518,231	\$ 61,141,715

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	<u>Program Services</u>			<u>Supporting Services</u>	
	<u>Grantmaking Program</u>	<u>Medicare Supplemental Insurance Subsidy Program</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Grants authorized	\$ 28,451,644	\$ -0-	\$ 28,451,644	\$ -0-	\$ 28,451,644
Medicare Supplemental Insurance Subsidies		26,976,324	26,976,324		26,976,324
Medicare Supplemental Insurance Subsidy servicing expenses		2,101,464	2,101,464		2,101,464
Grantmaking program support	824,016		824,016		824,016
Salaries and benefits	1,271,508	149,193	1,420,701	578,236	1,998,937
Legal and accounting fees				67,150	67,150
Office supplies and other expenses				85,665	85,665
Insurance				34,405	34,405
Office expenses	16,968		16,968	97,096	114,064
Contractual services	28,115	740	28,855	303,919	332,774
Travel and meetings	98,490		98,490	24,559	123,049
Memberships and dues	19,000		19,000	13,223	32,223
Total Expenses	\$ 30,709,741	\$ 29,227,721	\$ 59,937,462	\$ 1,204,253	\$ 61,141,715

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from contributions	\$ 85,000,000	\$ 86,000,000
Interest and dividends received	7,393,630	5,773,108
Cash paid for grants	(31,487,251)	(22,819,821)
Cash paid for Medicare Supplemental Insurance Subsidies	(22,742,862)	(26,869,942)
Cash paid to suppliers and vendors	(5,121,909)	(3,983,800)
Cash paid for salaries and benefits	(2,741,381)	(1,951,564)
	<u>30,300,227</u>	<u>36,147,981</u>
Net Cash Flows from Operating Activities		
Cash Flows from Investing Activities:		
Purchases of investments	(84,534,847)	(250,688,390)
Sales and redemptions of investments	55,787,558	213,110,734
Purchases of fixed assets	(167,116)	-0-
	<u>(28,914,405)</u>	<u>(37,577,656)</u>
Net Cash Flows from Investing Activities		
Change in Cash and Cash Equivalents	1,385,822	(1,429,675)
Cash and Cash Equivalents, Beginning of Year	<u>1,018,314</u>	<u>2,447,989</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,404,136</u>	<u>\$ 1,018,314</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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.

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, 2019 and 2018

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 \$24,500,000 and \$30,000,000 for the Medicare Supplemental Insurance Subsidy program as of December 31, 2019 and 2018, 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, 2019 and 2018

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 \$10,073 and \$11,224 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018

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 2019 and 2018 were discounted at rates of 5.50 and 4.25 percent, respectively, which were the prime rates as of December 31, 2019 and 2018, respectively.

Risks and Uncertainties

The Fund invests in various securities, including registered investment companies, commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, foreign 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, 2019 and 2018

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, 2019 or 2018.

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, 2019, approximately \$408,000 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 on deposit did not exceed the federally insured limit as of December 31, 2019. Investments are diversified among various registered investment companies, commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, foreign 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.

Adoption of New Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

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

Adoption of New Accounting Pronouncements (continued)

ASU 2018-08 clarifies current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction by clarifying how an entity determines whether a resource provider is participating in an exchange transaction and clarifying the definition of “commensurate value”. ASU 2018-08 also modifies the definition of a “donor-imposed condition” so that the determination is based on whether an agreement includes both a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. ASU 2018-08 also permits an organization to elect a policy in which contributions that are restricted by the donor and that were initially conditional contributions are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contributions are recognized without also having to elect that policy for other contributions that are restricted by the donor. The Fund adopted the provisions of ASU 2018-08 as of January 1, 2019. The adoption of this pronouncement did not impact the Fund’s net assets or financial statements.

Subsequent Events

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date that the accompanying financial statements were available to be issued. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. As a result, the Fund’s investment portfolio has incurred a significant decline in fair value since December 31, 2019. However, because the values of the Fund’s investments have fluctuated, and will fluctuate, in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. The COVID-19 outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of national economic slowdown.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

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

Subsequent Events (continued)

The Fund received an additional scheduled contribution from Blue Cross Blue Shield of Michigan for \$85 million on March 31, 2020. Furthermore, the Fund is continuing to issue grants and Medicare Supplemental Insurance Subsidies at levels comparable to previous years. Management estimates that the Fund's operating fund cash and cash equivalents are sufficient to continue funding grants and Medicare Supplemental Insurance Subsidies at previous levels for at least the rest of 2020.

The Fund has evaluated subsequent events through April 3, 2020, the date that the accompanying financial statements were available to be issued. The Fund did not identify any other 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, 2019, the Fund has a conditional promise to receive of \$1.12 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, 2019 and 2018

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, 2019 and 2018 is 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>
2019				
Assets:				
Investments at fair value:				
Registered investment companies	\$ 138,941,679	\$ -0-	\$ -0-	\$ 138,941,679
Commercial paper		20,203,386		20,203,386
Corporate bonds		45,526,149		45,526,149
Mortgage-backed and asset-backed securities		7,765,476		7,765,476
Municipal bonds		1,259,276		1,259,276
Foreign bonds		1,088,703		1,088,703
U.S. Treasury securities		5,760,646		5,760,646
	<u>\$ 138,941,679</u>	<u>\$ 81,603,636</u>	<u>\$ -0-</u>	<u>220,545,315</u>
Total Investments at Fair Value				
Investments measured at net asset value:				
Common and collective trusts				11,330,080
Limited partnerships				5,146,948
				<u>16,477,028</u>
Total Investments Measured at Net Asset Value				<u>\$ 237,022,343</u>

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)

	<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>3,663,790</u>		<u>3,663,790</u>
Total Investments at Fair Value	<u>\$ 92,066,531</u>	<u>\$ 79,075,777</u>	<u>\$ -0-</u>	<u>171,142,308</u>
Investments measured at net asset value:				
Common and collective trusts				12,061,733
Limited partnerships				<u>1,964,136</u>
Total Investments Measured at Net Asset Value				<u>14,025,869</u>
				<u>\$ 185,168,177</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	\$ 11,330,080	\$ -0-	Monthly	30 days
Limited partnerships	<u>5,146,948</u>	<u>29,980,788</u>	Not applicable	Not allowed before liquidation
	<u>\$ 16,477,028</u>	<u>\$ 29,980,788</u>		

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)

For the years ended December 31, 2019 and 2018, the Fund's net investment income (loss) is summarized as follows:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gain (loss)	\$ 23,106,877	\$ (14,030,447)
Interest and dividend income	<u>7,318,530</u>	<u>5,956,212</u>
	30,425,407	(8,074,235)
Less: Investment manager fees	<u>(186,799)</u>	<u>(132,168)</u>
Net Investment Income (Loss)	<u>\$ 30,238,608</u>	<u>\$ (8,206,403)</u>

NOTE D — GRANTS PAYABLE

The Fund's Board of Directors has approved grants payable in 2019 and 2018; the unpaid amounts as of December 31, 2019 and 2018, for which all conditions have been met, are scheduled to be paid as follows:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than one year	\$ 12,724,457	\$ 11,886,543
One to five years	<u>2,646,876</u>	<u>1,738,420</u>
	15,371,333	13,624,963
Less:		
Discount (at 5.50 and 4.25 percent in 2019 and 2018, respectively)	<u>-0-</u>	<u>(21,954)</u>
	<u>\$ 15,371,333</u>	<u>\$ 13,603,009</u>

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

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 in net assets with donor restrictions. The remaining portion of the Wilson Foundation Endowment Fund that is not classified in net assets with donor restrictions is classified in net assets without donor restrictions.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

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. As of December 31, 2018, a deficiency of this nature existed in the Wilson Foundation Endowment Fund, which had 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 for 2018 was paid out of the Fund's operating fund. The deficiency balance was classified in net assets without donor restrictions. This deficiency was eliminated during 2019 as a result of favorable market fluctuations.

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, 2019 and 2018, 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, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Endowment Funds:		
MHEF Endowment Fund	\$ 110,100,000	\$ 82,050,000
Wilson Foundation Endowment Fund	2,000,000	2,000,000
	<u>\$ 112,100,000</u>	<u>\$ 84,050,000</u>

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

NOTE F — LEASES

The Fund leases certain facilities under an operating lease which expires in April 2027. The Fund also leases other facilities under an operating lease which expires in September 2020; the Fund is in the final stages of negotiating an extension of this lease through October 2026.

Future minimum rental commitments, including payments under the aforementioned lease extension, are as follows:

For the Years Ending December 31:	
2020	\$ 211,459
2021	216,126
2022	216,126
2023	216,126
2024	216,126
2025-2027	<u>436,301</u>
Total Minimum Lease Payments	<u>\$ 1,512,264</u>

Rental expense under these leases was \$109,688 and \$114,064 for the years ended December 31, 2019 and 2018, 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 \$103,903 and \$80,268 as of December 31, 2019 and 2018, 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. Through December 31, 2018, the Fund has made 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. Effective January 1, 2019, the Fund makes matching contributions at 100 percent of employee contributions, up to six percent of eligible employees' compensation. For the years ended December 31, 2019 and 2018, the Fund contributed \$110,101 and \$50,820, respectively.

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

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, 2019 and 2018, such financial assets are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,298,327	\$ 779,965
Accrued interest receivable	444,559	561,952
Investments	<u>60,320,529</u>	<u>63,607,023</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 62,063,415</u>	<u>\$ 64,948,940</u>

As of December 31, 2019 and 2018, the Fund has \$62,063,415 and \$64,948,940, respectively, 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, 2021, 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.