

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

**FINANCIAL STATEMENTS**

**December 31, 2021 and 2020**



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

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## **INDEPENDENT AUDITOR'S REPORT**

May 24, 2022

To the Board of Directors  
Michigan Health Endowment Fund

### **Opinion**

We have audited the 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, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Michigan Health Endowment Fund as of December 31, 2021 and 2020, 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 ("U.S. GAAP").

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

The Fund's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. *Reasonable assurance* is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS:

- We exercise professional judgment and maintain professional skepticism throughout the audit.
- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and we design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- We obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- We evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and we evaluate the overall presentation of the financial statements.
- We conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



CERTIFIED PUBLIC ACCOUNTANTS  
Detroit, Michigan

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

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2021 and 2020**

	2021			2020		
	Operating Fund	Endowment Funds	Total All Funds	Operating Fund	Endowment Funds	Total All Funds
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 3,085,099	\$ 2,860,816	\$ 5,945,915	\$ 1,467,177	\$ 3,248,958	\$ 4,716,135
Accrued interest receivable	259,575	247,633	507,208	291,977	214,728	506,705
Prepaid expenses and other current assets	1,080,138		1,080,138	1,939,390		1,939,390
<b>Total Current Assets</b>	<b>4,424,812</b>	<b>3,108,449</b>	<b>7,533,261</b>	<b>3,698,544</b>	<b>3,463,686</b>	<b>7,162,230</b>
<b>Other Assets:</b>						
Investments (Note C)	53,293,790	306,519,391	359,813,181	56,163,895	238,626,086	294,789,981
Fixed assets (net of accumulated depreciation of \$93,612 and \$72,163 in 2021 and 2020, respectively) (Note A)	365,510		365,510	272,783		272,783
<b>Total Other Assets</b>	<b>53,659,300</b>	<b>306,519,391</b>	<b>360,178,691</b>	<b>56,436,678</b>	<b>238,626,086</b>	<b>295,062,764</b>
<b>Total Assets</b>	<b>\$ 58,084,112</b>	<b>\$ 309,627,840</b>	<b>\$ 367,711,952</b>	<b>\$ 60,135,222</b>	<b>\$ 242,089,772</b>	<b>\$ 302,224,994</b>

See notes to financial statements.

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

**STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

**December 31, 2021 and 2020**

	2021			2020		
	Operating Fund	Endowment Funds	Total All Funds	Operating Fund	Endowment Funds	Total All Funds
<b>LIABILITIES AND NET ASSETS</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 551,915	\$ -0-	\$ 551,915	\$ 557,837	\$ -0-	\$ 557,837
Accrued payroll and related liabilities	112,871		112,871	167,728		167,728
Grants payable – current portion (Note D)	15,724,955		15,724,955	13,404,531		13,404,531
<b>Total Current Liabilities</b>	<b>16,389,741</b>	<b>-0-</b>	<b>16,389,741</b>	<b>14,130,096</b>	<b>-0-</b>	<b>14,130,096</b>
<b>Long-Term Liabilities:</b>						
Deferred compensation (Note G)	186,228		186,228	135,920		135,920
Grants payable (net of current portion) (Note D)	499,518		499,518	4,692,744		4,692,744
<b>Total Long-Term Liabilities</b>	<b>685,746</b>	<b>-0-</b>	<b>685,746</b>	<b>4,828,664</b>	<b>-0-</b>	<b>4,828,664</b>
<b>Total Liabilities</b>	<b>17,075,487</b>	<b>-0-</b>	<b>17,075,487</b>	<b>18,958,760</b>	<b>-0-</b>	<b>18,958,760</b>
<b>Net Assets:</b>						
Net assets without donor restrictions:						
Undesignated	23,508,625		23,508,625	23,676,462		23,676,462
Designated (Note A)	17,500,000	143,427,840	160,927,840	17,500,000	101,939,772	119,439,772
<b>Total Net Assets without Donor Restrictions</b>	<b>41,008,625</b>	<b>143,427,840</b>	<b>184,436,465</b>	<b>41,176,462</b>	<b>101,939,772</b>	<b>143,116,234</b>
Net assets with donor restrictions:						
Endowment funds (Note E)		166,200,000	166,200,000		138,150,000	138,150,000
Other programs			-0-		2,000,000	2,000,000
<b>Total Net Assets with Donor Restrictions</b>	<b>-0-</b>	<b>166,200,000</b>	<b>166,200,000</b>	<b>-0-</b>	<b>140,150,000</b>	<b>140,150,000</b>
<b>Total Net Assets</b>	<b>41,008,625</b>	<b>309,627,840</b>	<b>350,636,465</b>	<b>41,176,462</b>	<b>242,089,772</b>	<b>283,266,234</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 58,084,112</b>	<b>\$ 309,627,840</b>	<b>\$ 367,711,952</b>	<b>\$ 60,135,222</b>	<b>\$ 242,089,772</b>	<b>\$ 302,224,994</b>

See notes to financial statements.

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

**STATEMENTS OF ACTIVITIES**

**For the Year Ended December 31, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)**

	2021							Total All Funds	
	Without Donor Restrictions				With Donor Restrictions			2021	2020
	Undesignated	Designated		Total without Donor Restrictions	Endowment Funds	Other Programs	Total with Donor Restrictions		
	Operating Fund	Operating Fund	Endowment Funds						
<b>Revenue and Gains:</b>									
Contributions (Note E)	\$ 57,000,000	\$ -0-	\$ -0-	\$ 57,000,000	\$ 28,050,000	\$ -0-	\$ 28,050,000	\$ 85,050,000	\$ 85,323,000
Net investment income (Note C)	165,257		41,488,068	41,653,325				41,653,325	37,270,229
<b>Total Revenue and Gains</b>	<b>57,165,257</b>	<b>-0-</b>	<b>41,488,068</b>	<b>98,653,325</b>	<b>28,050,000</b>	<b>-0-</b>	<b>28,050,000</b>	<b>126,703,325</b>	<b>122,593,229</b>
<b>Expenses and Losses:</b>									
Program services:									
Grantmaking program	38,818,909			38,818,909				38,818,909	41,241,663
Medicare Supplemental Insurance Subsidy program	16,053,382			16,053,382				16,053,382	21,961,433
Total Program Services	54,872,291	-0-	-0-	54,872,291	-0-	-0-	-0-	54,872,291	63,203,096
Supporting services:									
Management and general	2,385,867			2,385,867				2,385,867	1,904,140
<b>Total Expenses</b>	<b>57,258,158</b>	<b>-0-</b>	<b>-0-</b>	<b>57,258,158</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>57,258,158</b>	<b>65,107,236</b>
Loss on disposition of fixed assets	74,936			74,936				74,936	-0-
<b>Total Expenses and Losses</b>	<b>57,333,094</b>	<b>-0-</b>	<b>-0-</b>	<b>57,333,094</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>57,333,094</b>	<b>65,107,236</b>
<b>Excess (Deficiency) of Revenue and Gains over Expenses and Losses</b>	<b>(167,837)</b>	<b>-0-</b>	<b>41,488,068</b>	<b>41,320,231</b>	<b>28,050,000</b>	<b>-0-</b>	<b>28,050,000</b>	<b>69,370,231</b>	<b>57,485,993</b>
<b>Other Changes in Net Assets:</b>									
Refund of endowment contribution (Note E)						(2,000,000)	(2,000,000)	(2,000,000)	-0-
<b>Change in Net Assets</b>	<b>(167,837)</b>	<b>-0-</b>	<b>41,488,068</b>	<b>41,320,231</b>	<b>28,050,000</b>	<b>(2,000,000)</b>	<b>26,050,000</b>	<b>67,370,231</b>	<b>57,485,993</b>
Net Assets, Beginning of Year	23,676,462	17,500,000	101,939,772	143,116,234	138,150,000	2,000,000	140,150,000	283,266,234	225,780,241
<b>Net Assets, End of Year</b>	<b>\$ 23,508,625</b>	<b>\$ 17,500,000</b>	<b>\$ 143,427,840</b>	<b>\$ 184,436,465</b>	<b>\$ 166,200,000</b>	<b>\$ -0-</b>	<b>\$ 166,200,000</b>	<b>\$ 350,636,465</b>	<b>\$ 283,266,234</b>

See notes to financial statements.

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

**STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2020

	Without Donor Restrictions			With Donor Restrictions				Total All Funds
	Undesignated	Designated		Total without Donor Restrictions	Endowment Funds	Other Programs	Total with Donor Restrictions	
	Operating Fund	Operating Fund	Endowment Funds					
<b>Revenue and Gains:</b>								
Contributions (Note E)	\$ 56,973,000	\$ -0-	\$ -0-	\$ 56,973,000	\$ 28,050,000	\$ 300,000	\$ 28,350,000	\$ 85,323,000
Net investment income (Note C)	1,205,903		36,064,326	37,270,229				37,270,229
<b>Total Revenue and Gains</b>	<b>58,178,903</b>	<b>-0-</b>	<b>36,064,326</b>	<b>94,243,229</b>	<b>28,050,000</b>	<b>300,000</b>	<b>28,350,000</b>	<b>122,593,229</b>
<b>Expenses:</b>								
Program services:								
Grantmaking program	41,241,663			41,241,663				41,241,663
Medicare Supplemental Insurance Subsidy program	21,961,433			21,961,433				21,961,433
Total Program Services	63,203,096	-0-	-0-	63,203,096	-0-	-0-	-0-	63,203,096
Supporting services:								
Management and general	1,904,140			1,904,140				1,904,140
<b>Total Expenses</b>	<b>65,107,236</b>	<b>-0-</b>	<b>-0-</b>	<b>65,107,236</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>65,107,236</b>
<b>Excess (Deficiency) of Revenue and Gains over Expenses</b>	<b>(6,928,333)</b>	<b>-0-</b>	<b>36,064,326</b>	<b>29,135,993</b>	<b>28,050,000</b>	<b>300,000</b>	<b>28,350,000</b>	<b>57,485,993</b>
<b>Other Changes in Net Assets:</b>								
Net assets released from restrictions for Rapid Response Telehealth program	300,000			300,000		(300,000)	(300,000)	-0-
Transfers for designated purposes, net (Note B)	7,000,000	(7,000,000)						-0-
<b>Change in Net Assets</b>	<b>371,667</b>	<b>(7,000,000)</b>	<b>36,064,326</b>	<b>29,435,993</b>	<b>28,050,000</b>	<b>-0-</b>	<b>28,050,000</b>	<b>57,485,993</b>
Net Assets, Beginning 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
<b>Net Assets, End of Year</b>	<b>\$ 23,676,462</b>	<b>\$ 17,500,000</b>	<b>\$ 101,939,772</b>	<b>\$ 143,116,234</b>	<b>\$ 138,150,000</b>	<b>\$ 2,000,000</b>	<b>\$ 140,150,000</b>	<b>\$ 283,266,234</b>

See notes to financial statements.



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

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Year Ended December 31, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)**

	<u>2021</u>				<u>Total Expenses</u>	
	<u>Program Services</u>			<u>Supporting Services</u>	<u>2021</u>	<u>2020</u>
	<u>Grantmaking Program</u>	<u>Medicare Supplemental Insurance Subsidy Program</u>	<u>Total Program Services</u>	<u>Management and General</u>		
Grants authorized	\$ 32,804,803	\$ -0-	\$ 32,804,803	\$ -0-	\$ 32,804,803	\$ 35,349,963
Medicare Supplemental Insurance Subsidies		14,531,588	14,531,588		14,531,588	20,155,478
Medicare Supplemental Insurance Subsidy servicing expenses		1,502,076	1,502,076		1,502,076	1,778,287
Grantmaking program support	3,361,828		3,361,828		3,361,828	3,273,978
Salaries and benefits	2,239,778	19,718	2,259,496	1,115,627	3,375,123	3,295,951
Legal and accounting fees				87,570	87,570	80,801
Office supplies and other expenses				119,172	119,172	104,395
Insurance				34,210	34,210	30,437
Office expenses	308,061		308,061		308,061	217,486
Contractual services	62,272		62,272	997,482	1,059,754	767,798
Travel and meetings				10,025	10,025	21,137
Memberships and dues	42,167		42,167	21,781	63,948	31,525
<b>Total Expenses</b>	<b>\$ 38,818,909</b>	<b>\$ 16,053,382</b>	<b>\$ 54,872,291</b>	<b>\$ 2,385,867</b>	<b>\$ 57,258,158</b>	<b>\$ 65,107,236</b>

See notes to financial statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended December 31, 2020**

	<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	\$ 35,349,963	\$ -0-	\$ 35,349,963	\$ -0-	\$ 35,349,963
Medicare Supplemental Insurance Subsidies		20,155,478	20,155,478		20,155,478
Medicare Supplemental Insurance Subsidy servicing expenses		1,778,287	1,778,287		1,778,287
Grantmaking program support	3,263,978		3,263,978	10,000	3,273,978
Salaries and benefits	2,254,764	27,668	2,282,432	1,013,519	3,295,951
Legal and accounting fees				80,801	80,801
Office supplies and other expenses				104,395	104,395
Insurance				30,437	30,437
Office expenses	170,663		170,663	46,823	217,486
Contractual services	182,795		182,795	585,003	767,798
Travel and meetings				21,137	21,137
Memberships and dues	19,500		19,500	12,025	31,525
<b>Total Expenses</b>	<b>\$ 41,241,663</b>	<b>\$ 21,961,433</b>	<b>\$ 63,203,096</b>	<b>\$ 1,904,140</b>	<b>\$ 65,107,236</b>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Cash Flows from Operating Activities:</b>		
Cash received from contributions	\$ 85,050,000	\$ 85,313,000
Interest and dividends received	7,680,804	6,878,734
Cash paid for grants	(34,677,605)	(32,624,021)
Cash paid for Medicare Supplemental Insurance Subsidies	(14,014,450)	(19,984,988)
Cash paid to refund endowment contribution	(2,000,000)	-0-
Cash paid to suppliers and vendors	(6,576,974)	(6,893,577)
Cash paid for salaries and benefits	(3,379,672)	(3,244,999)
	<b>32,082,103</b>	<b>29,444,149</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(197,062,162)	(190,717,610)
Sales and redemptions of investments	166,425,275	163,601,570
Purchases of fixed assets	(215,436)	(16,110)
	<b>(30,852,323)</b>	<b>(27,132,150)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>1,229,780</b>	<b>2,311,999</b>
Cash and Cash Equivalents, Beginning of Year	4,716,135	2,404,136
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 5,945,915</b>	<b>\$ 4,716,135</b>

See notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2021 and 2020**

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

**Nature of Activities and Purpose**

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, 2021 and 2020**

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**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 \$17,500,000 for the Medicare Supplemental Insurance Subsidy program as of December 31, 2021 and 2020. 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).

The Fund's investments are valued as follows:

- Common stocks are stated at quoted market prices.
- 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 short-term investments 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.
- The values of common and collective trusts and limited partnerships are based on the underlying investments in the funds. The reported balances of these investments are based on the net asset value per share calculated by the investment managers or administrators.
- Investments denominated in foreign currencies are translated to U.S. dollar equivalents, for reporting purposes, at the exchange rates as of December 31 of each year.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

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

**Investments (continued)**

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.

**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 \$5,000 or more, effective January 1, 2021; prior to that date, the Fund's policy was to capitalize acquisitions of \$1,000 or more. Depreciation expense was \$47,773 and \$34,834 for the years ended December 31, 2021 and 2020, 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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

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

**Fair Value Measurements (continued)**

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

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 2021 and 2020 were discounted at 3.25 percent, which was the prime rate as of December 31, 2021 and 2020.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

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

**Risks and Uncertainties**

The Fund invests in various securities, including registered investment companies, common stocks, commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, foreign bonds, U.S. Treasury securities, short-term investments, 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.

**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, 2021 or 2020.

**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, 2021, approximately \$67,000 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 is placed at this financial institution; the entirety of this balance as of December 31, 2021 was invested in a short-term repurchase agreement which is not federally insured, but which is collateralized by the underlying investment securities. Investments are diversified among various registered investment companies, common stocks, commercial paper, corporate bonds, mortgage and asset-backed securities, municipal bonds, foreign bonds, U.S. Treasury securities, short-term investments, common and collective trusts, and limited partnerships.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

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

**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.

**Subsequent Events**

The Fund has evaluated subsequent events through May 24, 2022, 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, 2021, the Fund has a conditional promise to receive of \$949,950,000 from Blue Cross Blue Shield of Michigan (“BCBSM”), as required by the Act. Under the agreement between the Fund and BCBSM, the payment plan is an annual cap amount scheduled to be paid on or before April 1 of each year, from 2014 through 2031, or the date when total contributions made by BCBSM to the Fund reaches \$1.56 billion. Payments vary by year, and may be accelerated or delayed upon the occurrence of various conditions. Two primary conditions relate to BCBSM achieving specified risk-based capital levels, as well as any other adjustments or relief which the Michigan Department of Insurance and Financial Services may grant.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2021 and 2020

**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, 2021 and 2020 is summarized as follows:

	<u>Fair Value Measurements</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<b>2021</b>				
<b>Assets:</b>				
Investments at fair value:				
Registered investment companies	\$ 187,266,680	\$ -0-	\$ -0-	\$ 187,266,680
Common stocks:				
Domestic	24,797,750			24,797,750
Foreign	1,158,322			1,158,322
Commercial paper		14,110,956		14,110,956
Corporate bonds		37,893,164		37,893,164
Mortgage-backed and asset-backed securities		17,818,785		17,818,785
Municipal bonds		2,174,234		2,174,234
Foreign bonds		2,124,333		2,124,333
U.S. Treasury securities		8,455,063		8,455,063
Short-term investments		9,984,316		9,984,316
				<u>9,984,316</u>
<b>Total Investments at Fair Value</b>	<u><u>\$ 213,222,752</u></u>	<u><u>\$ 92,560,851</u></u>	<u><u>\$ -0-</u></u>	<u><u>305,783,603</u></u>
Investments measured at net asset value:				
Common and collective trusts				17,205,480
Limited partnerships				<u>36,824,098</u>
<b>Total Investments Measured at Net Asset Value</b>				<u><u>54,029,578</u></u>
				<u><u>\$ 359,813,181</u></u>

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2021 and 2020

**NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)**

	<u>Fair Value Measurements</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
<b>2020</b>				
<b>Assets:</b>				
Investments at fair value:				
Registered investment companies	\$ 153,872,678	\$ -0-	\$ -0-	\$ 153,872,678
Common stocks:				
Domestic	17,124,276			17,124,276
Foreign	856,211			856,211
Commercial paper		24,542,083		24,542,083
Corporate bonds		41,749,648		41,749,648
Mortgage-backed and asset-backed securities		13,285,483		13,285,483
Municipal bonds		1,672,065		1,672,065
Foreign bonds		1,530,576		1,530,576
U.S. Treasury securities		6,181,423		6,181,423
	<u>\$ 171,853,165</u>	<u>\$ 88,961,278</u>	<u>\$ -0-</u>	<u>260,814,443</u>
Investments measured at net asset value:				
Common and collective trusts				15,746,033
Limited partnerships				18,229,505
				<u>33,975,538</u>
				<u>\$ 294,789,981</u>

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2021 and 2020

**NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)**

Additional information as of December 31, 2021 and 2020 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>
<b>2021</b>				
Common and collective trusts	\$ 17,205,480	\$ -0-	Monthly	30 days
Limited partnerships	36,824,098	32,150,206	Not applicable	Not allowed before liquidation
	<u>\$ 54,029,578</u>	<u>\$ 32,150,206</u>		
<b>2020</b>				
Common and collective trusts	\$ 15,746,033	\$ -0-	Monthly	30 days
Limited partnerships	18,229,505	37,132,971	Not applicable	Not allowed before liquidation
	<u>\$ 33,975,538</u>	<u>\$ 37,132,971</u>		

The primary investments in the above investment categories are described below. The fair value of the investments in each of these categories has been estimated using the net asset value per share of the investments.

- Common and Collective Trusts — These consist of investments in various funds whose fair values are based on the net asset value per share calculated by each fund's investment manager or administrator. Common and collective trusts invest in equity securities, primarily in international equities.
- Limited Partnerships – This category includes investments in large and small company buyouts, venture capital, growth equity, fixed income and credit, infrastructure, and distressed situations. The investment managers primarily invest directly or through secondary market purchases globally. The fair values of the investments in this category have been estimated using the net asset value per share of the investments provided by the manager or administrator.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

**NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)**

For the years ended December 31, 2021 and 2020, the Fund's net investment income is summarized as follows:

	<u>2021</u>	<u>2020</u>
Net realized and unrealized gain	\$ 34,386,313	\$ 30,651,598
Interest and dividend income	<u>7,681,307</u>	<u>6,773,057</u>
	42,067,620	37,424,655
Less: Investment manager fees	<u>(414,295)</u>	<u>(154,426)</u>
<b>Net Investment Income</b>	<b><u>\$ 41,653,325</u></b>	<b><u>\$ 37,270,229</u></b>

**NOTE D — GRANTS PAYABLE**

The Fund's Board of Directors has approved grants payable in 2021 and 2020; the unpaid amounts as of December 31, 2021 and 2020, for which all conditions have been met, are scheduled to be paid as follows:

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 15,724,955	\$ 13,404,531
One to five years	<u>499,518</u>	<u>4,692,744</u>
	<b><u>\$ 16,224,473</u></b>	<b><u>\$ 18,097,275</u></b>

**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.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

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**NOTE E — ENDOWMENT FUNDS (CONTINUED)**

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. In 2021, the Fund’s management determined that the Fund would no longer be able to use the \$2 million contribution for its restricted purpose. The Fund agreed to return the contribution to the Ralph C. Wilson Jr. Foundation.

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 classified the original value of the \$2 million contribution in net assets with donor restrictions. The remaining portion of the Wilson Foundation Endowment Fund that was not classified in net assets with donor restrictions was classified in net assets without donor restrictions.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

**NOTE E — ENDOWMENT FUNDS (CONTINUED)**

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, 2021 and 2020, 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Endowment Funds:		
MHEF Endowment Fund	\$ 166,200,000	\$ 138,150,000
Wilson Foundation Endowment Fund	-0-	2,000,000
	<u>\$ 166,200,000</u>	<u>\$ 140,150,000</u>

**NOTE F — LEASES**

The Fund leases certain facilities under an operating lease which expires in October 2026, and also leases other facilities under an operating lease which expires in March 2031.

Future minimum rental commitments are as follows:

<b>For the Years Ending December 31:</b>	
2022	\$ 321,554
2023	321,554
2024	324,576
2025	331,627
2026	315,039
2027-2031	<u>923,964</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 2,538,314</u></b>

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2021 and 2020

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**NOTE F — LEASES (CONTINUED)**

Rental expense under these leases was \$302,395 and \$189,834 for the years ended December 31, 2021 and 2020, 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 \$185,016 and \$135,920 as of December 31, 2021 and 2020, respectively.

The Fund also established a safe harbor thrift plan under IRC section 403(b) to enable its employees to accumulate long-term savings for retirement. The Fund makes matching contributions at 100 percent of employee contributions, up to six percent of eligible employees' compensation. For the years ended December 31, 2021 and 2020, the Fund contributed \$144,564 and \$133,013, respectively.

**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, 2021 and 2020, such financial assets are as follows:

	<u>2021</u>	<u>2020</u>
<b>Financial Assets:</b>		
Cash and cash equivalents	\$ 3,085,099	\$ 1,467,177
Accrued interest receivable	259,575	291,977
Investments	<u>53,293,790</u>	<u>56,163,895</u>
<b>Financial Assets Available to Meet General Expenditures within One Year</b>	<u><u>\$ 56,638,464</u></u>	<u><u>\$ 57,923,049</u></u>



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2021 and 2020**

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**NOTE H — LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)**

As of December 31, 2021 and 2020, the Fund has \$56,638,464 and \$57,923,049, 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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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, 2022, 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 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, in September 2020. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash and other financial assets in the statement of activities. This ASU also requires expanded disclosures regarding the types, uses, policies, valuation techniques, and donor restrictions related to contributed nonfinancial assets. ASU 2020-07 applies to the Fund's financial statements for the year ending December 31, 2022, 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 2020-07.