

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

FINANCIAL STATEMENTS

December 31, 2023 and 2022



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

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INDEPENDENT AUDITOR’S REPORT

August 21, 2024

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, 2023 and 2022, 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, 2023 and 2022, 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.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities 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.

GJC CPAs & Advisors

Detroit, Michigan

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2023 and 2022

	2023			2022		
	Operating Fund	Endowment Fund	Total All Funds	Operating Fund	Endowment Fund	Total All Funds
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 5,398,685	\$ 13,936,979	\$ 19,335,664	\$ 7,139,427	\$ 8,171,796	\$ 15,311,223
Accrued interest receivable	355,253	378,416	733,669	264,430	305,660	570,090
Prepaid expenses and other current assets	95,967		95,967	93,453		93,453
Total Current Assets	5,849,905	14,315,395	20,165,300	7,497,310	8,477,456	15,974,766
Other Assets:						
Investments (Note C)	78,313,307	378,410,309	456,723,616	53,847,330	290,785,809	344,633,139
Right-of-use assets under operating leases (Note F)	2,525,784		2,525,784	2,857,578		2,857,578
Fixed assets (net of accumulated depreciation of \$201,111 and \$146,331 in 2023 and 2022, respectively) (Note A)	280,496		280,496	335,276		335,276
Total Other Assets	81,119,587	378,410,309	459,529,896	57,040,184	290,785,809	347,825,993
Total Assets	\$ 86,969,492	\$ 392,725,704	\$ 479,695,196	\$ 64,537,494	\$ 299,263,265	\$ 363,800,759

See notes to financial statements.

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

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

December 31, 2023 and 2022

	2023			2022		
	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	\$ 262,940	\$ -0-	\$ 262,940	\$ 267,683	\$ -0-	\$ 267,683
Accrued payroll and related liabilities	117,519		117,519	107,430		107,430
Grants payable – current portion (Note D)	11,224,950		11,224,950	15,658,814		15,658,814
Operating lease liabilities – current portion (Note F)	337,981		337,981	333,213		333,213
Total Current Liabilities	11,943,390	-0-	11,943,390	16,367,140	-0-	16,367,140
Long-Term Liabilities:						
Deferred compensation (Note G)	198,470		198,470	194,330		194,330
Grants payable (net of current portion) (Note D)	6,571,974		6,571,974	613,344		613,344
Operating lease liabilities (net of current portion) (Note F)	2,187,803		2,187,803	2,525,283		2,525,283
Total Long-Term Liabilities	8,958,247	-0-	8,958,247	3,332,957	-0-	3,332,957
Total Liabilities	20,901,637	-0-	20,901,637	19,700,097	-0-	19,700,097
Net Assets:						
Net assets without donor restrictions:						
Undesignated	66,067,855		66,067,855	44,837,397		44,837,397
Designated (Note A)		146,525,704	146,525,704		93,063,265	93,063,265
Total Net Assets without Donor Restrictions	66,067,855	146,525,704	212,593,559	44,837,397	93,063,265	137,900,662
Net assets with donor restrictions:						
Endowment fund (Note E)		246,200,000	246,200,000		206,200,000	206,200,000
Total Net Assets	66,067,855	392,725,704	458,793,559	44,837,397	299,263,265	344,100,662
Total Liabilities and Net Assets	\$ 86,969,492	\$ 392,725,704	\$ 479,695,196	\$ 64,537,494	\$ 299,263,265	\$ 363,800,759

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2023
(With Comparative Totals for the Year Ended December 31, 2022)

	2023				Total All Funds	
	Without Donor Restrictions		With Donor Restrictions		2023	2022
	Undesignated	Designated	Total without Donor Restrictions	Endowment Fund		
	Operating Fund	Endowment Fund				
Revenue and Gains, Net of Losses:						
Contributions (Note E)	\$ 60,000,000	\$ -0-	\$ 60,000,000	\$ 40,000,000	\$ 100,000,000	\$ 100,000,000
Net investment income (loss) (Note C)	4,720,041	53,462,439	58,182,480		58,182,480	(49,403,453)
Total Revenue and Gains, Net of Losses	64,720,041	53,462,439	118,182,480	40,000,000	158,182,480	50,596,547
Expenses:						
Program services:						
Grantmaking program	41,414,788		41,414,788		41,414,788	41,058,345
Medicare Supplemental Insurance Subsidy program					-0-	13,738,802
Total Program Services	41,414,788	-0-	41,414,788	-0-	41,414,788	54,797,147
Supporting services:						
Management and general	2,074,795		2,074,795		2,074,795	2,335,203
Total Expenses	43,489,583	-0-	43,489,583	-0-	43,489,583	57,132,350
Change in Net Assets	21,230,458	53,462,439	74,692,897	40,000,000	114,692,897	(6,535,803)
Net Assets, Beginning of Year	44,837,397	93,063,265	137,900,662	206,200,000	344,100,662	350,636,465
Net Assets, End of Year	\$ 66,067,855	\$ 146,525,704	\$ 212,593,559	\$ 246,200,000	\$ 458,793,559	\$ 344,100,662

See notes to financial statements.

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

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2022

	Without Donor Restrictions			With Donor Restrictions	Total All Funds
	Undesignated	Designated		Endowment Fund	
	Operating Fund	Operating Fund	Endowment Fund		
			Total without Donor Restrictions		
Revenue and Gains, Net of Losses:					
Contributions (Note E)	\$ 60,000,000	\$ -0-	\$ -0-	\$ 60,000,000	\$ 100,000,000
Net investment income (loss) (Note C)	344,514		(49,747,967)	(49,403,453)	(49,403,453)
Total Revenue and Gains, Net of Losses	60,344,514	-0-	(49,747,967)	10,596,547	50,596,547
Expenses:					
Program services:					
Grantmaking program	41,058,345			41,058,345	41,058,345
Medicare Supplemental Insurance Subsidy program	13,738,802			13,738,802	13,738,802
Total Program Services	54,797,147	-0-	-0-	54,797,147	54,797,147
Supporting services:					
Management and general	2,335,203			2,335,203	2,335,203
Total Expenses	57,132,350	-0-	-0-	57,132,350	57,132,350
Excess (Deficiency) of Revenue and Gains over Expenses and Losses	3,212,164	-0-	(49,747,967)	(46,535,803)	(6,535,803)
Other Changes in Net Assets:					
Transfers for designated purposes, net (Note A)	18,116,608	(17,500,000)	(616,608)		-0-
Change in Net Assets	21,328,772	(17,500,000)	(50,364,575)	(46,535,803)	(6,535,803)
Net Assets, Beginning of Year	23,508,625	17,500,000	143,427,840	184,436,465	350,636,465
Net Assets, End of Year	\$ 44,837,397	\$ -0-	\$ 93,063,265	\$ 137,900,662	\$ 344,100,662

See notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2023
(With Comparative Totals for the Year Ended December 31, 2022)**

	<u>2023</u>		<u>Total Expenses</u>	
	<u>Program Services</u>	<u>Supporting Services</u>	<u>2023</u>	<u>2022</u>
	<u>Grantmaking Program</u>	<u>Management and General</u>		
Grants authorized	\$ 34,036,229	\$ -0-	\$ 34,036,229	\$ 33,792,452
Medicare Supplemental Insurance Subsidies			-0-	12,055,814
Medicare Supplemental Insurance Subsidy servicing expenses			-0-	1,646,622
Grantmaking program support	3,639,090		3,639,090	4,428,547
Salaries and benefits	2,895,163	957,499	3,852,662	3,636,632
Legal and accounting fees		69,697	69,697	65,413
Office supplies and other expenses		164,925	164,925	116,317
Insurance		35,818	35,818	29,750
Office expenses	411,682	69,422	481,104	435,225
Contractual services	346,624	713,096	1,059,720	839,144
Travel and meetings		60,507	60,507	41,780
Memberships and dues	86,000	3,831	89,831	44,654
Total Expenses	\$ 41,414,788	\$ 2,074,795	\$ 43,489,583	\$ 57,132,350

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

	<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	\$ 33,792,452	\$ -0-	\$ 33,792,452	\$ -0-	\$ 33,792,452
Medicare Supplemental Insurance Subsidies		12,055,814	12,055,814		12,055,814
Medicare Supplemental Insurance Subsidy servicing expenses		1,646,622	1,646,622		1,646,622
Grantmaking program support	4,428,547		4,428,547		4,428,547
Salaries and benefits	2,400,177	36,366	2,436,543	1,200,089	3,636,632
Legal and accounting fees				65,413	65,413
Office supplies and other expenses				116,317	116,317
Insurance				29,750	29,750
Office expenses	352,009		352,009	83,216	435,225
Contractual services	43,640		43,640	795,504	839,144
Travel and meetings				41,780	41,780
Memberships and dues	41,520		41,520	3,134	44,654
Total Expenses	\$ 41,058,345	\$ 13,738,802	\$ 54,797,147	\$ 2,335,203	\$ 57,132,350

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Cash received from contributions	\$ 100,000,000	\$ 100,000,000
Interest and dividends received	11,709,566	8,401,345
Cash paid for grants	(32,511,463)	(33,744,767)
Cash paid for Medicare Supplemental Insurance Subsidies	(38,919)	(11,144,886)
Cash paid to suppliers and vendors	(5,902,665)	(8,277,710)
Cash paid for salaries and benefits	(3,838,433)	(3,633,971)
	<u>69,418,086</u>	<u>51,600,011</u>
Net Cash Flows from Operating Activities		
Cash Flows from Investing Activities:		
Purchases of investments	(105,531,146)	(171,518,414)
Sales and redemptions of investments	40,137,501	129,306,196
Purchases of fixed assets	-0-	(22,485)
	<u>(65,393,645)</u>	<u>(42,234,703)</u>
Net Cash Flows from Investing Activities		
Change in Cash and Cash Equivalents	4,024,441	9,365,308
Cash and Cash Equivalents, Beginning of Year	<u>15,311,223</u>	<u>5,945,915</u>
Cash and Cash Equivalents, End of Year	<u>\$ 19,335,664</u>	<u>\$ 15,311,223</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

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.

Designated Net Assets

The Fund’s Board of Directors may designate contributions or net assets without donor restrictions toward specific future Fund activities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

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

Designated Net Assets (continued)

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.

During 2022, the Fund's Board of Directors released net assets of \$17,500,000 previously designated for the Medicare Supplemental Insurance Subsidy program. There were no remaining net assets designated by the Board of Directors as of December 31, 2023 or 2022.

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, 2023 and 2022

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. Depreciation expense was \$54,780 and \$52,719 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022

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 2023 and 2022 were discounted at 8.5 and 7.5 percent, which were the prime rates as of December 31, 2023 and 2022, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

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, 2023 or 2022.

Leases

The Fund recognizes right-of-use assets and lease liabilities for virtually all leases. Leases are categorized as either finance leases or operating leases.

At contract inception, the Fund determines whether a contract is or contains a lease, based on whether the Fund has the right to control the asset during the contract period, and whether the lease should be classified as a finance lease or an operating lease. The Fund’s leasing arrangements contain some non-lease components, which are excluded from the calculation of right-of-use assets and lease liabilities at the inception of the lease contract. The Fund does not enter into any leases with a defined borrowing rate, so the Fund uses the incremental borrowing rate to measure its right-of-use assets and lease liabilities. The incremental borrowing rate is the rate that the Fund would have to pay to borrow, on a collateralized basis over a similar term, amounts equal to the lease payments in a comparable economic environment.

The Fund has elected not to recognize right-of-use assets or lease liabilities for leases that have an initial term of 12 months or less; the Fund recognizes lease expense for these leases on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

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.

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, 2023, approximately \$14,402,000 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, 2023 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.

Subsequent Events

The Fund has evaluated subsequent events through August 21, 2024, 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, 2023, the Fund has a conditional promise to receive of \$749,950,000 from Blue Cross Blue Shield of Michigan ("BCBSM"), as required by the Act.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

NOTE B — CONDITIONAL PROMISES TO RECEIVE (CONTINUED)

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, 2023 and 2022 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>	
2023				
Assets:				
Investments at fair value:				
Registered investment companies	\$ 226,508,868	\$ -0-	\$ -0-	\$ 226,508,868
Common stocks:				
Domestic	26,802,854			26,802,854
Foreign	2,307,080			2,307,080
Commercial paper		9,940,022		9,940,022
Corporate bonds		52,081,478		52,081,478
Mortgage-backed and asset-backed securities		19,090,793		19,090,793
Government bonds		2,067,236		2,067,236
Municipal bonds		2,125,018		2,125,018
Foreign bonds		1,657,648		1,657,648
U.S. Treasury securities		20,198,815		20,198,815
Short-term investments		15,327,885		15,327,885
Total Investments at Fair Value	<u>\$ 255,618,802</u>	<u>\$ 122,488,895</u>	<u>\$ -0-</u>	<u>\$ 378,107,697</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

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>	
2023 (continued)				
Assets (continued):				
Investments measured at net asset value:				
Common and collective trusts				\$ 15,920,131
Limited partnerships				<u>62,695,788</u>
Total Investments Measured at Net Asset Value				<u>78,615,919</u>
				<u>\$ 456,723,616</u>
2022				
Assets:				
Investments at fair value:				
Registered investment companies	\$ 166,591,619	\$ -0-	\$ -0-	\$ 166,591,619
Common stocks:				
Domestic	20,299,909			20,299,909
Foreign	970,730			970,730
Commercial paper		6,408,448		6,408,448
Corporate bonds		36,610,159		36,610,159
Mortgage-backed and asset-backed securities		17,349,342		17,349,342
Municipal bonds		1,803,479		1,803,479
Foreign bonds		1,869,635		1,869,635
U.S. Treasury securities		15,889,002		15,889,002
Short-term investments		14,501,088		14,501,088
Total Investments at Fair Value	<u>\$ 187,862,258</u>	<u>\$ 94,431,153</u>	<u>\$ -0-</u>	<u>\$ 282,293,411</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

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>	
2022 (continued)				
Assets (continued):				
Investments measured at net asset value:				
Common and collective trusts				\$ 14,055,519
Limited partnerships				<u>48,284,209</u>
Total Investments Measured at Net Asset Value				<u>62,339,728</u>
				<u><u>\$ 344,633,139</u></u>

Additional information as of December 31, 2023 and 2022 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>
2023				
Common and collective trusts	\$ 15,920,131	\$ -0-	Monthly	30 days
Limited partnerships	<u>62,695,788</u>	<u>44,299,536</u>	Not applicable	Not allowed before liquidation
	<u>\$ 78,615,919</u>	<u>\$ 44,299,536</u>		
2022				
Common and collective trusts	\$ 14,055,519	\$ -0-	Monthly	30 days
Limited partnerships	<u>48,284,209</u>	<u>37,214,924</u>	Not applicable	Not allowed before liquidation
	<u>\$ 62,339,728</u>	<u>\$ 37,214,924</u>		

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

NOTE C — INVESTMENTS AND FAIR VALUE (CONTINUED)

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.

For the years ended December 31, 2023 and 2022, the Fund’s net investment income and losses are summarized as follows:

	<u>2023</u>	<u>2022</u>
Net realized and unrealized gain (loss)	\$ 46,696,832	\$ (57,392,260)
Interest and dividend income	<u>11,873,145</u>	<u>8,464,227</u>
	58,569,977	(48,928,033)
Less: Investment manager fees	<u>(387,497)</u>	<u>(475,420)</u>
Net Investment Gain (Loss)	<u>\$ 58,182,480</u>	<u>\$ (49,403,453)</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

NOTE D — GRANTS PAYABLE

The Fund’s Board of Directors has approved grants payable in 2023 and 2022; the unpaid amounts as of December 31, 2023 and 2022, for which all conditions have been met, are scheduled to be paid as follows:

	<u>2023</u>	<u>2022</u>
Amounts due in:		
Less than one year	\$ 11,224,950	\$ 15,658,814
One to five years	6,571,974	613,344
	<u>\$ 17,796,924</u>	<u>\$ 16,272,158</u>

NOTE E — ENDOWMENT FUND

The Fund received contributions from BCBSM as shown on the statements of activities (see Note B). The Fund may expend a portion of the contributions in each year for operations and in fulfillment of its mission to a maximum amount specified in the schedule below. In addition, the Fund must contribute to an endowment fund (the “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 net assets with donor restrictions a portion of the annual contributions not less than the minimum required to be maintained in the Endowment Fund by the schedule above.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

NOTE E — ENDOWMENT FUND (CONTINUED)

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 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 Endowment Fund reaches \$750 million, that balance will be required to be maintained in perpetuity to provide ongoing income to the Fund.

The assets of the Endowment Fund 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 Fund as of December 31, 2023 and 2022, as well as reconciliations of the fair value of the assets of the Endowment Fund for the years then ended.

NOTE F — LEASES

The Fund has operating leases for its two office spaces, for which significant modifications were made, effective December 1, 2022. The leases have remaining terms ranging from four to ten years.

Amounts recognized in the statements of financial position as of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Right-of-Use Assets:		
Under operating leases	<u>\$ 2,525,784</u>	<u>\$ 2,857,578</u>
Operating Lease Liabilities:		
Current portion	\$ 337,981	\$ 333,213
Long-term portion	<u>2,187,803</u>	<u>2,525,283</u>
	<u>\$ 2,525,784</u>	<u>\$ 2,858,496</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

NOTE F — LEASES (CONTINUED)

Maturities of the lease liabilities are as follows as of December 31, 2023:

	<u>Operating Leases</u>
For the Years Ending December 31:	
2024	\$ 373,059
2025	373,059
2026	352,958
2027	255,515
2028	260,763
2029-2032	<u>1,071,656</u>
Total Lease Payments	2,687,010
Less: Imputed interest	<u>(161,226)</u>
Present Value of Lease Liabilities	<u>\$ 2,525,784</u>

Lease costs, after the effective date of the lease modifications, are as follows for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Operating lease cost	<u>\$ 384,081</u>	<u>\$ 32,007</u>

Cash paid after the effective date of the lease modifications for amounts included in the measurement of lease liabilities during the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
For operating leases from operating cash flows	<u>\$ 373,059</u>	<u>\$ 31,088</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

NOTE F — LEASES (CONTINUED)

Acquisitions of right-of-use assets in exchange for new lease liabilities during the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Under operating leases	<u>\$ -0-</u>	<u>\$ 2,886,051</u>

The weighted average remaining lease terms and the weighted average discount rates of the Fund's leases as of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term for operating leases	8.09 years	8.94 years
Weighted average discount rate for operating leases	1.5 %	1.5 %

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 \$198,470 and \$194,330 as of December 31, 2023 and 2022, 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, 2023 and 2022, the Fund contributed \$181,610 and \$171,474, respectively.

MICHIGAN HEALTH ENDOWMENT FUND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2023 and 2022

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, 2023 and 2022, such financial assets are as follows:

	<u>2023</u>	<u>2022</u>
Financial Assets:		
Cash and cash equivalents	\$ 5,398,685	\$ 7,139,427
Accrued interest receivable	355,253	264,430
Investments	<u>78,313,307</u>	<u>53,847,330</u>
Financial Assets Available to Meet General Expenditures within One Year	 <u>\$ 84,067,245</u>	 <u>\$ 61,251,187</u>

As of December 31, 2023 and 2022, the Fund has \$84,067,245 and \$61,251,187, 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.