



FINANCIAL STATEMENTS

Spectrum Health Foundation  
Years Ended June 30, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Spectrum Health Foundation

Financial Statements

Years Ended June 30, 2013 and 2012

**Contents**

Report of Independent Auditors..... 1

Financial Statements

Statements of Financial Position..... 3

Statements of Activities ..... 4

Statements of Functional Expenses ..... 5

Statements of Cash Flows..... 7

Notes to Financial Statements..... 8

## Report of Independent Auditors

The Board of Trustees  
Spectrum Health Foundation

We have audited the accompanying financial statements of Spectrum Health Foundation, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity's internal control. Accordingly, we express no such opinion. 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 Spectrum Health Foundation at June 30, 2013 and 2012, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

September 9, 2013

# Spectrum Health Foundation

## Statements of Financial Position (In Thousands)

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 2,911	\$ 5,098
Pledges receivable, net of allowance of \$318 in 2013 and \$217 in 2012	<b>6,008</b>	5,184
Total current assets	<b>8,919</b>	10,282
Investments	<b>78,610</b>	62,771
Pledges receivable	<b>13,517</b>	15,919
Other assets	<b>3,153</b>	2,960
Total assets	<b>\$ 104,199</b>	\$ 91,932
<b>Liabilities and net assets</b>		
Accounts payable and accrued expenses	\$ 2,202	\$ 1,996
Funds held for affiliate	<b>3,496</b>	3,180
Due to affiliates	<b>1,272</b>	989
Total liabilities	<b>6,970</b>	6,165
Net assets:		
Unrestricted	<b>10,297</b>	6,494
Temporarily restricted	<b>50,777</b>	46,122
Permanently restricted	<b>36,155</b>	33,151
	<b>97,229</b>	85,767
Total liabilities and net assets	<b>\$ 104,199</b>	\$ 91,932

*See accompanying notes.*

# Spectrum Health Foundation

## Statements of Activities (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Contributions	\$ 14,970	\$ 14,297
Loss on uncollectible pledges	(149)	(110)
Investment income	1,141	1,149
Net realized gains on investments	4,559	498
Net unrealized (losses) gains on investments	3,301	(1,887)
Other revenue	2,631	2,649
Total revenues	<b>26,453</b>	<b>16,596</b>
<b>Expenses</b>		
Program services:		
Program distributions	9,816	8,795
Capital transfers to affiliates	3,309	3,487
Total program services	<b>13,125</b>	<b>12,282</b>
Support services:		
Fund-raising	1,718	1,561
Program support	912	945
Administration	1,037	940
Total support services	<b>3,667</b>	<b>3,446</b>
Total expenses	<b>16,792</b>	<b>15,728</b>
Net asset transfer from affiliate	<b>1,801</b>	<b>-</b>
Increase in net assets	<b>11,462</b>	<b>868</b>
Net assets at beginning of year	<b>85,767</b>	<b>84,899</b>
Net assets at end of year	<b>\$ 97,229</b>	<b>\$ 85,767</b>

*See accompanying notes.*

# Spectrum Health Foundation

## Statement of Functional Expenses (In Thousands)

Year Ended June 30, 2013

	Program Services			Support Services				Total
	Pediatrics	Adult	Total Program Services	Fund-Raising	Program Support	Administration	Total Support Services	
Inpatient	\$ 4,263	\$ 1,125	\$ 5,388	\$ -	\$ -	\$ -	\$ -	\$ 5,388
Outpatient	1,032	167	1,199	-	-	-	-	1,199
Prevention and advocacy	119	1,297	1,416	-	-	-	-	1,416
Research and education	370	1,158	1,528	-	-	-	-	1,528
Capital transfers to affiliates	1,036	2,273	3,309	-	-	-	-	3,309
Salaries and wages	-	-	-	866	519	347	1,732	1,732
Employee benefits	-	-	-	210	126	84	420	420
Professional fees	-	-	-	308	114	79	501	501
Publications and promotions	-	-	-	158	120	17	295	295
Other	38	247	285	176	33	510	719	1,004
	\$ 6,858	\$ 6,267	\$ 13,125	\$ 1,718	\$ 912	\$ 1,037	\$ 3,667	\$ 16,792

See accompanying notes.

# Spectrum Health Foundation

## Statement of Functional Expenses (In Thousands)

Year Ended June 30, 2012

	Program Services			Support Services				Total
	Pediatrics	Adult	Total Program Services	Fund-Raising	Program Support	Administration	Total Support Services	
Inpatient	\$ 3,131	\$ 524	\$ 3,655	\$ -	\$ -	\$ -	\$ -	\$ 3,655
Outpatient	846	903	1,749	-	-	-	-	1,749
Prevention and advocacy	55	803	858	-	-	-	-	858
Research and education	1,088	1,445	2,533	-	-	-	-	2,533
Capital transfers to affiliates	2,923	564	3,487	-	-	-	-	3,487
Salaries and wages	-	-	-	849	510	340	1,699	1,699
Employee benefits	-	-	-	199	120	80	399	399
Professional fees	-	-	-	224	118	43	385	385
Publications and promotions	-	-	-	174	107	8	289	289
Other	-	-	-	115	90	469	674	674
	\$ 8,043	\$ 4,239	\$ 12,282	\$ 1,561	\$ 945	\$ 940	\$ 3,446	\$ 15,728

See accompanying notes.



# Spectrum Health Foundation

## Statements of Cash Flows (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Increase in net assets	\$ 9,661	\$ 868
Noncash revenues and expenses included in change in net assets:		
Provision for uncollectible contributions	149	110
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Trading securities	(15,839)	(3,074)
Decrease in contributions receivable	1,375	4,982
Increase in other assets	(139)	(171)
Change in due to/from affiliates	599	496
Increase in other liabilities	206	132
Net cash provided by (used in) operating activities	(3,988)	3,343
Net increase (decrease) increase in cash	(3,988)	3,343
Cash transferred from affiliate	1,801	-
Cash at beginning of year	5,098	1,755
Cash at end of year	\$ 2,911	\$ 5,098

*See accompanying notes.*

# Spectrum Health Foundation

## Notes to Financial Statements *(In Thousands)*

June 30, 2013

### **1. Summary of Significant Accounting Policies**

#### **Business Purpose**

Spectrum Health Foundation (the Foundation) is a not-for-profit Michigan organization whose purpose is to advance the health of West Michigan communities by philanthropically supporting the health care, research, and educational programs of Spectrum Health and its not-for-profit affiliates. The Foundation is a controlled nonstock affiliate of Spectrum Health System. In addition, the Foundation operates under the name of the Helen DeVos Children's Hospital Foundation.

The Foundation's fund-raising activities are directed toward the development and advancement of programs that offer a continuum of high-quality health care based on the needs of West Michigan communities. Gifts and grants are applied toward projects that cannot be funded entirely through general operating revenue and are used as directed by the donors.

#### **Temporarily and Permanently Restricted Net Assets and Gifts**

Temporarily restricted net assets are those funds whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Unconditional promises to give cash and other assets are recorded at fair value at the date the promise is received. Pledges meeting the documentation requirements are recorded as contributions receivable in the accompanying statements of financial position. An allowance for uncollectible pledges is recorded to reduce contributions receivable to their estimated net realizable value. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reported in the statements of activities as grant expenditures. Donor-restricted contributions, whose restrictions are met within the same year as they were received, are reflected as unrestricted contributions in the accompanying financial statements.

Net assets transferred from affiliate represent cash received from affiliate United Memorial Foundation as part of its dissolution in fiscal 2013.

# Spectrum Health Foundation

## Notes to Financial Statements (continued) (In Thousands)

### **1. Summary of Significant Accounting Policies (continued)**

#### **Short-Term Investments**

Short-term investments include money market funds and highly liquid investments with a maturity of three months or less when purchased, which are readily convertible to equal amounts of cash.

#### **Pledges Receivable and Allowance for Doubtful Accounts**

Pledges receivable consist primarily of amounts due on pledges received from donors. Amounts are written off to bad debt as they are deemed uncollectible, and an allowance for uncollectible accounts is provided based on a review of current donor status and historical collection experience.

Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable expected to be collected in future years are recorded at the net present value of the estimated future cash flows. Pledges receivable are reflected net of the allowance for doubtful accounts and have been discounted at rates ranging from 0.25% to 5.27%. These rates approximate the rates of return for U.S. government securities at the origination of the pledge and are commensurate with the risk associated with the ultimate collection of the receivables. The discount is amortized using the straight-line method over the expected collection period of the receivables.

#### **Investments and Investment Return**

Investments are recorded at fair value based upon quoted market prices and consist principally of short-term investments, marketable debt securities, and marketable equity securities.

Investment securities purchased and sold are reported based on trade date. Due to the period lag between the trade date and the settlement date, the Foundation reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio and are presented on a net basis within investments in the statements of financial position.

# Spectrum Health Foundation

## Notes to Financial Statements (continued) *(In Thousands)*

### **1. Summary of Significant Accounting Policies (continued)**

#### **Other Assets**

Other assets represent primarily the Foundation's art collection. The value of an art object received as a donation is recorded at its fair value on the date of the donation.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Reclassifications**

Certain amounts previously reported in 2012 have been reclassified to conform to the presentation used in 2013.

## Spectrum Health Foundation

### Notes to Financial Statements (continued) (In Thousands)

#### 2. Activities

The Foundation's revenues and expenses and changes in net assets are summarized as follows for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Contributions	\$ —	\$ 14,611	\$ 359	\$ 14,970
Loss on uncollectible pledges	—	(149)	—	(149)
Investment income	1,101	40	—	1,141
Net realized gains on investments	1,867	541	2,151	4,559
Net unrealized gains on investments	1,970	270	1,061	3,301
Appropriations of endowment assets and fund transfers	—	567	(567)	—
Other revenue	2,631	—	—	2,631
Total revenues	<u>7,569</u>	<u>15,880</u>	<u>3,004</u>	<u>26,453</u>
<b>Expenses</b>				
Grants disbursed:				
Program-related	99	9,717	—	9,816
Capital	—	3,309	—	3,309
Total disbursements	<u>99</u>	<u>13,026</u>	<u>—</u>	<u>13,125</u>
Support services:				
Fund-raising	1,718	—	—	1,718
Program	912	—	—	912
Administration	1,037	—	—	1,037
Total support services	<u>3,667</u>	<u>—</u>	<u>—</u>	<u>3,667</u>
Total expenses	<u>3,766</u>	<u>13,026</u>	<u>—</u>	<u>16,792</u>
Net asset transfer from affiliate	—	1,801	—	1,801
Increase in net assets	<u>3,803</u>	<u>4,655</u>	<u>3,004</u>	<u>11,462</u>
Net assets at beginning of year	<u>6,494</u>	<u>46,122</u>	<u>33,151</u>	<u>85,767</u>
Net assets at end of year	<u>\$ 10,297</u>	<u>\$ 50,777</u>	<u>\$ 36,155</u>	<u>\$ 97,229</u>

# Spectrum Health Foundation

## Notes to Financial Statements (continued) (In Thousands)

### 2. Activities (continued)

The Foundation's revenues and expenses and changes in net assets are summarized as follows for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Contributions	\$ —	\$ 10,355	\$ 3,942	\$ 14,297
Loss on uncollectible pledges	—	(110)	—	(110)
Investment income	702	33	414	1,149
Net realized gains on investments	160	159	179	498
Net unrealized losses on investments	(534)	(338)	(1,015)	(1,887)
Appropriations of endowment assets and fund transfers	(83)	738	(655)	—
Other revenue	2,649	—	—	2,649
Total revenues	2,894	10,837	2,865	16,596
<b>Expenses</b>				
Grants disbursed:				
Program-related	79	8,711	5	8,795
Capital	134	3,353	—	3,487
Total disbursements	213	12,064	5	12,282
Support services:				
Fund-raising	1,561	—	—	1,561
Program	945	—	—	945
Administration	940	—	—	940
Total support services	3,446	—	—	3,446
Total expenses	3,659	12,064	5	15,728
Increase (decrease) in net assets	(765)	(1,227)	2,860	868
Net assets at beginning of year	7,259	47,349	30,291	84,899
Net assets at end of year	\$ 6,494	\$ 46,122	\$ 33,151	\$ 85,767

# Spectrum Health Foundation

## Notes to Financial Statements (continued) (In Thousands)

### 2. Activities (continued)

Temporarily restricted net assets are available for the following purposes:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Hospital capital projects	\$ 7,453	\$ 7,870
Program activities and other	43,324	38,252
Amounts recorded in statements of financial position	<u>\$ 50,777</u>	<u>\$ 46,122</u>

Permanently restricted net assets consist principally of investments in perpetuity, the income from which is expendable to support program and other Foundation activities.

### 3. Endowment

The Foundation's endowments consist of approximately 100 individual funds established for a variety of purposes. Its endowments include donor-restricted endowment funds, and as required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The state of Michigan has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to replace the Michigan Uniform Management of Institutional Funds Act (UMIFA) effective September 10, 2009. UPMIFA, along with other relevant state laws, guides the Foundation's investment policies for restricted funds.

Both UPMIFA and the former UMIFA require the Foundation to exercise ordinary and prudent care in good faith in its discretion to invest and appropriate some or all of the net appreciation or depreciation of investments. In absence of a relevant law or donor stipulations, fiduciary responsibility to exercise ordinary care and prudence does not extend donor stipulations to the earnings and losses on investments.

# Spectrum Health Foundation

## Notes to Financial Statements (continued)

*(In Thousands)*

### **3. Endowment (continued)**

The Foundation has interpreted the donor agreements, intentions, and relevant endowment laws as requiring the preservation of the endowment balances in perpetuity. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization



Spectrum Health Foundation

Notes to Financial Statements (continued)  
(In Thousands)

**3. Endowment (continued)**

The endowment net asset composition by type of fund as of June 30, 2013 and 2012, was as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>June 30, 2013</b>			
Donor-restricted endowment funds	<u>\$ 7,219</u>	<u>\$ 36,155</u>	<u>\$ 43,374</u>
<b>June 30, 2012</b>			
Donor-restricted endowment funds	<u>\$ 6,423</u>	<u>\$ 33,151</u>	<u>\$ 39,574</u>

Changes in endowment net assets for the years ended June 30, 2013 and 2012, were as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at July 1, 2012	\$ 6,423	\$ 33,151	\$ 39,574
Investment return:			
Net realized investment gains	541	2,151	2,692
Net unrealized gains on investments	270	1,061	1,331
Total investment gain	811	3,212	4,023
Contributions	32	359	391
Appropriation of endowment assets for expenditure	(310)	(1,127)	(1,437)
Other changes:			
Redesignation of donor funds	263	560	823
Endowment net assets at June 30, 2013	<u>\$ 7,219</u>	<u>\$ 36,155</u>	<u>\$ 43,374</u>

## Spectrum Health Foundation

### Notes to Financial Statements (continued) (In Thousands)

#### 3. Endowment (continued)

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2011	\$ 6,887	\$ 30,291	\$ 37,178
Investment return:			
Net realized investment gains and investment income	160	593	753
Net unrealized losses on investments	(338)	(1,015)	(1,353)
Total investment loss	(178)	(422)	(600)
Contributions	10	3,942	3,952
Appropriation of endowment assets for expenditure	(296)	(915)	(1,211)
Other changes:			
Redesignation of donor funds	–	255	255
Endowment net assets at June 30, 2012	\$ 6,423	\$ 33,151	\$ 39,574

#### Funds With Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds changes with additional donor contributions, investment returns and losses, and appropriations for program spending. The entire donor-restricted fund balance is maintained as the endowment amount; therefore, no deficiencies exist as of June 30, 2013 or 2012.

#### Return Objectives and Risk Parameters

The Foundation has investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a long-term rate of return that exceeds a performance benchmark of fixed income and equity securities while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

# Spectrum Health Foundation

## Notes to Financial Statements (continued)

*(In Thousands)*

### **3. Endowment (continued)**

#### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior six quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

## Spectrum Health Foundation

### Notes to Financial Statements (continued) (In Thousands)

#### 4. Investments

The fair value of the Foundation's investments at June 30 is as follows:

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 1,347	\$ 1,241
Short-term investments	138	99
U.S. Treasury securities	2,303	3,066
Corporate debt securities	2,280	2,398
Mortgage-backed securities	3,666	4,097
Mutual funds – fixed income	9,096	4,484
Mutual funds – international equity	18,810	11,152
Marketable equity securities	16,929	15,115
Commingled funds	24,483	21,248
	<b>79,052</b>	<b>62,900</b>
Due to broker, net	(442)	(129)
	<b>\$ 78,610</b>	<b>\$ 62,771</b>

The Foundation's investments are exposed to various types and levels of risk. Fixed income securities expose the Foundation to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell a particular security.

Equity securities expose the Foundation to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both domestic and international. Performance risk tends to be higher for international and domestic small capitalized equity companies. Liquidity risk, as previously defined, tends to be higher for international and domestic small capitalized equity companies.

## Spectrum Health Foundation

### Notes to Financial Statements (continued) (In Thousands)

#### 5. Fair Value Measurements

Fair value is 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. The Financial Accounting Standards Board's Accounting Standards Codification Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Certain of the Foundation's financial assets are measured at fair value on a recurring basis, including money market and fixed income and equity instruments. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

*Level 2* – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities.

*Level 3* – Pricing inputs include those that are significant to the fair value of the financial asset or liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Spectrum Health Foundation

Notes to Financial Statements (continued)  
(In Thousands)

**5. Fair Value Measurements (continued)**

The value of financial assets measured at fair value on a recurring basis was determined using the following inputs at June 30, 2013:

	Fair Market Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and cash equivalents	\$ 4,258	\$ 4,258	\$ —	\$ —
Short-term investments	138	6	132	—
U.S. treasury securities	2,303	2,303	—	—
Corporate debt securities	2,280	—	2,280	—
Mortgage-backed securities	3,666	—	3,666	—
Mutual funds – fixed income	9,096	9,096	—	—
Mutual funds – international equity	18,810	18,810	—	—
Marketable equity securities	16,929	16,929	—	—
Commingled funds	24,483	—	24,483	—
Total financial assets at fair value	81,963	\$ 51,402	\$ 30,561	\$ —
Due to broker, net	(442)			
	<u>\$ 81,521</u>			

Spectrum Health Foundation

Notes to Financial Statements (continued)  
(In Thousands)

**5. Fair Value Measurements (continued)**

The value of financial assets measured at fair value on a recurring basis was determined using the following inputs at June 30, 2012:

	Fair Market Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and cash equivalents	\$ 6,339	\$ 5,217	\$ 1,122	\$ —
Short-term investments	99	—	99	—
U.S. treasury securities	3,066	3,066	—	—
Corporate debt securities	2,398	—	2,398	—
Mortgage-backed securities	4,097	—	4,097	—
Mutual funds – fixed income	4,484	4,484	—	—
Mutual funds – international equity	11,152	11,152	—	—
Marketable equity securities	15,115	15,115	—	—
Commingled funds	21,248	—	21,248	—
Total financial assets at fair value	67,998	\$ 39,034	\$ 28,964	\$ —
Due to broker, net	(129)			
	<u>\$ 67,869</u>			

# Spectrum Health Foundation

## Notes to Financial Statements (continued) (In Thousands)

### 5. Fair Value Measurements (continued)

The fair values of the securities included in Level 1 were determined through unadjusted quoted market prices. The fair values of Level 2 securities (primarily fixed income) were determined using third-party quotes based on quoted market prices of similar securities and other observable inputs. Due to the volatility of the capital markets, there is a reasonable possibility of significant changes in fair value and additional gains or losses in the near term subsequent to June 30, 2013.

There were no significant transfers into or out of Level 1 or Level 2 that occurred between July 1, 2012 and June 30, 2013.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The carrying values of cash and cash equivalents and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments are recorded at their fair value. Pledges receivable (see Note 6), other noncurrent assets, and other noncurrent liabilities have carrying values that approximate fair value.

### 6. Pledges Receivable

Pledges receivable are unconditional promises to give and include the following:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
In less than one year	\$ 6,814	\$ 5,889
In one to five years	9,684	11,539
In more than five years	5,650	6,650
	<u>22,148</u>	<u>24,078</u>
Less amount representing interest	(2,305)	(2,758)
Less allowance	(318)	(217)
Amounts recorded in statements of financial position	<u>\$ 19,525</u>	<u>\$ 21,103</u>



## Spectrum Health Foundation

### Notes to Financial Statements (continued)

*(In Thousands)*

#### **7. Related-Party Transactions**

During the years ended June 30, 2013 and 2012, the Foundation made transfers totaling \$3,309 and \$3,487, respectively, to Spectrum Health Hospitals and other affiliates for capital purchases, as directed by the donors, and received \$1,994 and \$1,871, respectively, for operating expenses. Amounts due to affiliates of \$1,272 at June 30, 2013, and \$989 at June 30, 2012, primarily represent transfers to be made to Spectrum Health Hospitals for intercompany activity. Funds held for affiliate represent a transfer received from and invested on behalf of affiliate Zeeland Community Hospital.

#### **8. Federal Income Tax Status**

As a not-for-profit Michigan organization, the Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3).

#### **9. Subsequent Events**

The Foundation evaluated subsequent events after June 30, 2013, through September 9, 2013, representing the date that the financial statements were available to be issued. The Foundation concluded that no material events or transactions occurred subsequent to June 30, 2013, that provided additional evidence about conditions that existed at June 30, 2013, or after, that require adjustments to or disclosure in the financial statements.

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