

FINANCIAL STATEMENTS

Spectrum Health Foundation  
Years Ended June 30, 2015 and 2014  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

# Spectrum Health Foundation

## Financial Statements

Years Ended June 30, 2015 and 2014

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## 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, 2015 and 2014, 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, 2015 and 2014, 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*

August 28, 2015

# Spectrum Health Foundation

## Statements of Financial Position (In Thousands)

	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 4,661	\$ 2,606
Pledges receivable, net of allowance of \$307 in 2015 and \$351 in 2014	<b>8,397</b>	8,406
Total current assets	<b>13,058</b>	11,012
Investments	<b>133,849</b>	102,658
Pledges receivable	<b>23,887</b>	26,619
Other assets	<b>2,817</b>	3,081
Total assets	<b>\$ 173,611</b>	\$ 143,370
<b>Liabilities and net assets</b>		
Accounts payable and accrued expenses	\$ 4,015	\$ 2,148
Funds held for affiliates	<b>20,627</b>	10,384
Due to affiliates	<b>1,979</b>	1,332
Total liabilities	<b>26,621</b>	13,864
Net assets:		
Unrestricted	<b>20,223</b>	16,373
Temporarily restricted	<b>78,996</b>	71,657
Permanently restricted	<b>47,771</b>	41,476
	<b>146,990</b>	129,506
Total liabilities and net assets	<b>\$ 173,611</b>	\$ 143,370

*See accompanying notes.*

# Spectrum Health Foundation

## Statements of Activities (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues</b>		
Contributions	\$ 24,870	\$ 37,280
Loss on uncollectible accounts	(60)	(56)
Investment income	1,765	2,445
Net realized gain on investments	4,008	12,366
Net unrealized loss on investments	(3,657)	(647)
Other revenue	414	2,413
Total revenues	<b>27,340</b>	<b>53,801</b>
<b>Expenses</b>		
Program services:		
Program distributions	13,204	14,062
Capital transfers to affiliates	1,903	3,571
Total program services	<b>15,107</b>	<b>17,633</b>
Support services:		
Fund-raising	1,812	1,863
Program support	975	1,029
Administration	960	999
Total support services	<b>3,747</b>	<b>3,891</b>
Total expenses	<b>18,854</b>	<b>21,524</b>
Net asset transfers from affiliates	2,741	–
Contribution received in donation of affiliate	6,257	–
Increase in net assets	<b>17,484</b>	<b>32,277</b>
Net assets at beginning of year	<b>129,506</b>	<b>97,229</b>
Net assets at end of year	<b>\$ 146,990</b>	<b>\$ 129,506</b>

*See accompanying notes.*

# Spectrum Health Foundation

## Statement of Functional Expenses (In Thousands)

Year Ended June 30, 2015

	Program Services			Support Services				
	Pediatrics	Adult	Total Program Services	Fund-Raising	Program Support	Administration	Total Support Services	Total
Inpatient	\$ 4,301	\$ 1,370	\$ 5,671	\$ -	\$ -	\$ -	\$ -	\$ 5,671
Outpatient	699	176	875	-	-	-	-	875
Prevention and advocacy	496	1,705	2,201	-	-	-	-	2,201
Research and education	2,559	1,898	4,457	-	-	-	-	4,457
Capital transfers to affiliates	210	1,693	1,903	-	-	-	-	1,903
Salaries and wages	-	-	-	1,029	617	411	2,057	2,057
Employee benefits	-	-	-	244	147	98	489	489
Professional fees	-	-	-	227	113	83	423	423
Publications and promotions	-	-	-	156	77	4	237	237
Other	-	-	-	156	21	364	541	541
	<b>\$ 8,265</b>	<b>\$ 6,842</b>	<b>\$ 15,107</b>	<b>\$ 1,812</b>	<b>\$ 975</b>	<b>\$ 960</b>	<b>\$ 3,747</b>	<b>\$ 18,854</b>

See accompanying notes.

# Spectrum Health Foundation

## Statement of Functional Expenses (In Thousands)

Year Ended June 30, 2014

	Program Services			Support Services				
	Pediatrics	Adult	Total Program Services	Fund-Raising	Program Support	Administration	Total Support Services	Total
Inpatient	\$ 4,713	\$ 677	\$ 5,390	\$ -	\$ -	\$ -	\$ -	\$ 5,390
Outpatient	211	264	475	-	-	-	-	475
Prevention and advocacy	1,298	1,773	3,071	-	-	-	-	3,071
Research and education	1,051	4,075	5,126	-	-	-	-	5,126
Capital transfers to affiliates	2,061	1,510	3,571	-	-	-	-	3,571
Salaries and wages	-	-	-	949	569	380	1,898	1,898
Employee benefits	-	-	-	269	161	108	538	538
Professional fees	-	-	-	245	143	65	453	453
Publications and promotions	-	-	-	204	118	9	331	331
Other	-	-	-	196	38	437	671	671
	\$ 9,334	\$ 8,299	\$ 17,633	\$ 1,863	\$ 1,029	\$ 999	\$ 3,891	\$ 21,524

See accompanying notes.



# Spectrum Health Foundation

## Statements of Cash Flows (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Increase in net assets	\$ 17,484	\$ 32,277
Net asset transfers from affiliates	(2,741)	-
Contribution received in donation of affiliate	(6,257)	-
Noncash revenues and expenses included in change in net assets:		
Provision for uncollectible accounts	60	56
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Trading securities	(22,193)	(24,048)
Change in pledges receivable	2,681	(15,556)
Change in other assets	264	72
Increase in due to/from affiliates	10,890	6,948
Change in other liabilities	1,867	(54)
Net cash provided by (used) in operating activities	<b>2,055</b>	<b>(305)</b>
Net increase (decrease) in cash	2,055	(305)
Cash at beginning of year	2,606	2,911
Cash at end of year	<b>\$ 4,661</b>	<b>\$ 2,606</b>

*See accompanying notes.*

# Spectrum Health Foundation

## Notes to Financial Statements (In Thousands)

June 30, 2015

### **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 non-stock 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.

#### **Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although actual results could differ from these estimates, management believes estimated amounts recorded are reasonable and appropriate.

#### **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 0.12% to 4.82%. 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.

# Spectrum Health Foundation

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

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

#### **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.

#### **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.

#### **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. Gifts meeting the documentation requirements are recorded as pledges receivable in the accompanying statements of financial position. An allowance for uncollectible accounts is recorded to reduce pledges receivable to their estimated net realizable value. If the gifts are received with donor stipulations that limit the use of the donated assets, the gifts are reported as either temporarily or permanently restricted. Donor-restricted contributions whose restrictions are net within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Management believes these are Level 2 measurements (as defined in Note 5) recorded on a nonrecurring bases.

Net assets transferred from affiliate represent assets received from Ludington Hospital Foundation and Gerber Memorial Hospital.

# Spectrum Health Foundation

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

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

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

	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
In less than one year	\$ 9,246	\$ 9,379
In one to five years	18,708	16,727
In more than five years	7,850	13,000
	35,804	39,106
Less amount representing interest	(3,213)	(3,730)
Less allowance for uncollectable pledge	(307)	(351)
Amounts recorded in statements of financial position	\$ 32,284	\$ 35,025

The discount is amortized using the straight-line method over the expected collection period of the receivables.

### Newly Adopted Accounting Standards

In April 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2013-06, *Services Received from Personnel of an Affiliate*, which outlines the guidance that not for profit entities should apply for recognizing and measuring services received from personnel of an affiliate. This ASU is effective for fiscal years beginning after June 15, 2014, and was effective for the Foundation in fiscal 2015. The Foundation adopted this guidance prospectively as permitted by the ASU and the adoption of this ASU did not have a material impact on the Foundation.

### Subsequent Events

The Foundation evaluated subsequent events after June 30, 2015, through August 28, 2015, 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, 2015, that provided additional evidence about conditions that existed at June 30, 2015, or after, that require adjustments to or disclosure in the financial statements.

## 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, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Contributions	\$ 1,998	\$ 16,873	\$ 5,999	\$ 24,870
Loss on uncollectible accounts	–	(60)	–	(60)
Investment income	1,687	78	–	1,765
Net realized gain on investments	1,875	328	1,805	4,008
Net unrealized loss on investments	(2,327)	(225)	(1,105)	(3,657)
Appropriations of endowment assets and fund transfers	(654)	1,527	(873)	–
Other revenue	414	–	–	414
<b>Total revenues</b>	<b>2,993</b>	<b>18,521</b>	<b>5,826</b>	<b>27,340</b>
<b>Expenses</b>				
Program services:				
Program distributions	115	13,089	–	13,204
Capital transfers to affiliates	60	1,843	–	1,903
<b>Total program services</b>	<b>175</b>	<b>14,932</b>	<b>–</b>	<b>15,107</b>
Support services:				
Fund-raising	1,812	–	–	1,812
Program support	975	–	–	975
Administration	960	–	–	960
<b>Total support services</b>	<b>3,747</b>	<b>–</b>	<b>–</b>	<b>3,747</b>
<b>Total expenses</b>	<b>3,922</b>	<b>14,932</b>	<b>–</b>	<b>18,854</b>
Net asset transfers from affiliates	–	2,729	12	2,741
Contribution received in donation of affiliate	4,779	1,021	457	6,257
<b>Increase in net assets</b>	<b>3,850</b>	<b>7,339</b>	<b>6,295</b>	<b>17,484</b>
<b>Net assets at beginning of year</b>	<b>16,373</b>	<b>71,657</b>	<b>41,476</b>	<b>129,506</b>
<b>Net assets at end of year</b>	<b>\$ 20,223</b>	<b>\$ 78,996</b>	<b>\$ 47,771</b>	<b>\$ 146,990</b>

## 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, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Contributions	\$ —	\$ 36,648	\$ 632	\$ 37,280
Loss on uncollectible accounts	—	(56)	—	(56)
Investment income	2,248	197	—	2,445
Net realized gain on investments	8,673	679	3,014	12,366
Net unrealized (loss) gain on investments	(3,158)	459	2,052	(647)
Appropriations of endowment assets and fund transfers	(34)	403	(369)	—
Other revenue	2,413	—	—	2,413
<b>Total revenues</b>	<b>10,142</b>	<b>38,330</b>	<b>5,329</b>	<b>53,801</b>
<b>Expenses</b>				
Program services:				
Program distributions	93	13,961	8	14,062
Capital transfers to affiliates	82	3,489	—	3,571
<b>Total program services</b>	<b>175</b>	<b>17,450</b>	<b>8</b>	<b>17,633</b>
Support services:				
Fund-raising	1,863	—	—	1,863
Program support	1,029	—	—	1,029
Administration	999	—	—	999
<b>Total support services</b>	<b>3,891</b>	<b>—</b>	<b>—</b>	<b>3,891</b>
<b>Total expenses</b>	<b>4,066</b>	<b>17,450</b>	<b>8</b>	<b>21,524</b>
Increase in net assets	6,076	20,880	5,321	32,277
Net assets at beginning of year	10,297	50,777	36,155	97,229
<b>Net assets at end of year</b>	<b>\$ 16,373</b>	<b>\$ 71,657</b>	<b>\$ 41,476</b>	<b>\$ 129,506</b>

# 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>2015</b>	<b>2014</b>
Hospital capital projects	\$ 6,420	\$ 5,971
Program activities and other	72,576	65,686
Amounts recorded in statements of financial position	<u>\$ 78,996</u>	<u>\$ 71,657</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 118 individual funds established for a variety of purposes. Its endowments include donor-restricted endowment funds, and as required by GAAP, 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, 2015 and 2014, was as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>June 30, 2015</b>			
Donor-restricted endowment funds	<b>\$ 7,987</b>	<b>\$ 47,771</b>	<b>\$ 55,758</b>
<b>June 30, 2014</b>			
Donor-restricted endowment funds	<b>\$ 8,108</b>	<b>\$ 41,476</b>	<b>\$ 49,584</b>

Changes in endowment net assets for the years ended June 30, 2015 and 2014, were as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at July 1, 2014	\$ 8,108	\$ 41,476	\$ 49,584
Investment return:			
Net realized investment gains	366	1,805	2,171
Net unrealized gains (loss) on investments	(225)	(1,105)	(1,330)
Total investment gain	141	700	841
Contributions	81	5,999	6,080
Appropriation of endowment assets for expenditure	(342)	(1,505)	(1,847)
Other changes:			
Redesignation of donor funds	(1)	632	631
Contribution received in donation of affiliate	-	469	469
Endowment net assets at June 30, 2015	<b>\$ 7,987</b>	<b>\$ 47,771</b>	<b>\$ 55,758</b>

## Spectrum Health Foundation

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

#### 3. Endowment (continued)

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2013	\$ 7,219	\$ 36,155	\$ 43,374
Investment return:			
Net realized investment gains	694	3,014	3,708
Net unrealized gains on investments	485	2,052	2,537
Total investment gain	1,179	5,066	6,245
Contributions	27	632	659
Appropriation of endowment assets for expenditure	(317)	(1,296)	(1,613)
Other changes:			
Redesignation of donor funds	-	919	919
Endowment net assets at June 30, 2014	<u>\$ 8,108</u>	<u>\$ 41,476</u>	<u>\$ 49,584</u>

#### 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, 2015 or 2014.

#### 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>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 12,955	\$ 1,546
Short-term investments	1,034	1,100
U.S. Treasury securities	10,622	4,641
Corporate debt securities	10,037	4,254
Mortgage-backed securities	11,535	6,343
Mutual funds – fixed income	7,532	18,220
Mutual funds – international equity	26,534	22,676
Marketable equity securities	21,986	14,408
Commingled funds	33,334	29,658
	<b>135,569</b>	102,846
Due to broker, net	(1,720)	(188)
	<b>\$ 133,849</b>	\$ 102,658

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.

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. Pledges receivable, other noncurrent assets, and other noncurrent liabilities have carrying values that approximate 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, 2015:

	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>Financial Assets</b>				
Cash and cash equivalents	\$ 17,616	\$ 17,616	\$ –	\$ –
Short-term investments	1,034	785	249	–
U.S. Treasury securities	10,622	10,622	–	–
Corporate debt securities	10,037	–	10,037	–
Mortgage-backed securities	11,535	–	11,535	–
Mutual funds – fixed income	7,532	7,532	–	–
Mutual funds – international equity	26,534	26,534	–	–
Marketable equity securities	21,986	21,986	–	–
Commingled funds	33,334	–	33,334	–
Total financial assets at fair value	140,230	\$ 85,075	\$ 55,155	\$ –
Due to broker, net	(1,720)			
	<u>\$ 138,510</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, 2014:

	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>Financial Assets</b>				
Cash and cash equivalents	\$ 4,152	\$ 4,152	\$ –	\$ –
Short-term investments	1,100	869	231	–
U.S. Treasury securities	4,641	4,641	–	–
Corporate debt securities	4,254	–	4,254	–
Mortgage-backed securities	6,343	–	6,343	–
Mutual funds – fixed income	18,220	18,220	–	–
Mutual funds – international equity	22,676	22,676	–	–
Marketable equity securities	14,408	14,408	–	–
Commingled funds	29,658	–	29,658	–
Total financial assets at fair value	105,452	\$ 64,966	\$ 40,486	\$ –
Due to broker, net	(188)			
	<u>\$ 105,264</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, 2015.

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.

#### **6. Related-Party Transactions**

During the years ended June 30, 2015 and 2014, the Foundation made transfers totaling \$1,903 and \$3,571, respectively, to Spectrum Health Hospitals and other affiliates for capital purchases, as directed by the donors, and received \$1,998 and \$1,936, respectively, for operating expenses. Amounts due to affiliates of \$1,979 and \$1,332 at June 30, 2015 and 2014, respectively, primarily represent transfers to be made to Spectrum Health Hospitals for intercompany activity. Funds held for affiliates represent transfers received from and invested on behalf of affiliates Spectrum Health Zeeland Community Hospital, Spectrum Health Pennock Hospital and Spectrum Health Ludington Hospital. Contribution received in donation of affiliate represents assets received from Spectrum Health Pennock Hospital subsequent to their acquisition by Spectrum Health and Affiliates in May 2015.

#### **7. 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).



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