

FINANCIAL STATEMENTS

Spectrum Health Foundation
Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Spectrum Health Foundation

Financial Statements

Years Ended June 30, 2016 and 2015

Contents

Report of Independent Auditors.....1

Financial Statements

Statements of Financial Position.....3

Statements of Activities4

Statements of Functional Expenses5

Statements of Cash Flows.....7

Notes to Financial Statements.....8



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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, 2016 and 2015, 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 Statements

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, 2016 and 2015, 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 29, 2016

Spectrum Health Foundation

Statements of Financial Position
(In Thousands)

	June 30	
	2016	2015
Assets		
Current assets:		
Cash	\$ 1,480	\$ 4,661
Pledges receivable, net of allowance of \$302 and \$307 in 2016 and 2015, respectively	7,207	8,397
Total current assets	8,687	13,058
Investments	137,548	133,849
Pledges receivable	21,231	23,887
Other assets	3,284	2,817
Total assets	\$ 170,750	\$ 173,611
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 2,660	\$ 4,015
Funds held for affiliates	20,397	20,627
Due to affiliates	1,390	1,979
Total liabilities	24,447	26,621
Net assets:		
Unrestricted	18,379	20,223
Temporarily restricted	75,381	78,996
Permanently restricted	52,543	47,771
	146,303	146,990
Total liabilities and net assets	\$ 170,750	\$ 173,611

See accompanying notes.

Spectrum Health Foundation

Statements of Activities (In Thousands)

	Year Ended June 30	
	2016	2015
Revenues		
Contributions	\$ 21,418	\$ 24,870
Provision for uncollectible accounts	(278)	(60)
Investment income	1,861	1,765
Net realized gain on investments	1,430	4,008
Net unrealized loss on investments	(4,250)	(3,657)
Other revenue	287	414
Total revenues	20,468	27,340
Expenses		
Program services:		
Program distributions	15,856	13,204
Capital transfers to affiliates	1,472	1,903
Total program services	17,328	15,107
Support services:		
Fundraising	2,016	1,812
Program support	918	975
Administration	1,228	960
Total support services	4,162	3,747
Total expenses	21,490	18,854
Net asset transfers from affiliates	335	2,741
Contribution received in donation of affiliate	-	6,257
(Decrease) increase in net assets	(687)	17,484
Net assets at beginning of year	146,990	129,506
Net assets at end of year	\$ 146,303	\$ 146,990

See accompanying notes.

Spectrum Health Foundation

Statement of Functional Expenses (In Thousands)

Year Ended June 30, 2016

	Program Services			Support Services				Total
	Pediatrics	Adult	Total Program Services	Fundraising	Program Support	Administration	Total Support Services	
Inpatient	\$ 4,528	\$ 1,868	\$ 6,396	\$ -	\$ -	\$ -	\$ -	\$ 6,396
Outpatient	104	176	280	-	-	-	-	280
Prevention and advocacy	1,229	3,001	4,230	-	-	-	-	4,230
Research and education	1,752	3,102	4,854	-	-	-	-	4,854
Capital transfers to affiliates	438	1,034	1,472	-	-	-	-	1,472
Salaries and wages	-	-	-	1,088	653	435	2,176	2,176
Employee benefits	-	-	-	260	156	104	520	520
Professional fees	-	-	-	332	10	108	450	450
Publications and promotions	-	-	-	143	86	11	240	240
Other	-	96	96	193	13	570	776	872
	\$ 8,051	\$ 9,277	\$ 17,328	\$ 2,016	\$ 918	\$ 1,228	\$ 4,162	\$ 21,490

See accompanying notes.

Spectrum Health Foundation

Statement of Functional Expenses (In Thousands)

Year Ended June 30, 2015

	Program Services			Support Services				Total
	Pediatrics	Adult	Total Program Services	Fundraising	Program Support	Administration	Total Support Services	
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
	\$ 8,265	\$ 6,842	\$ 15,107	\$ 1,812	\$ 975	\$ 960	\$ 3,747	\$ 18,854

See accompanying notes.

Spectrum Health Foundation

Statements of Cash Flows (In Thousands)

	Year Ended June 30	
	2016	2015
Operating activities		
(Decrease) increase in net assets	\$ (687)	\$ 17,484
Net asset transfers from affiliates	(335)	(2,741)
Contribution received in donation of affiliate	-	(6,257)
Noncash revenues and expenses included in change in net assets:		
Provision for uncollectible accounts	278	60
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Trading securities	(3,364)	(22,193)
Change in pledges receivable	3,568	2,681
Change in other assets	(467)	264
Change in due to/from affiliates	(819)	10,890
Change in other liabilities	(1,355)	1,867
Net cash (used in) provided by operating activities	(3,181)	2,055
Net (decrease) increase in cash	(3,181)	2,055
Cash at beginning of year	4,661	2,606
Cash at end of year	\$ 1,480	\$ 4,661

See accompanying notes.

Spectrum Health Foundation

Notes to Financial Statements (In Thousands)

June 30, 2016

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 Helen DeVos Children's Hospital Foundation.

The Foundation's fundraising 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 the 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 on 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 on 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 met 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 basis.

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

1. Summary of Significant Accounting Policies (continued)

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

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

	June 30	
	2016	2015
In less than one year	\$ 8,000	\$ 9,246
In one to five years	19,672	18,708
In more than five years	3,750	7,850
	<u>31,422</u>	<u>35,804</u>
Less amount representing interest	(2,682)	(3,213)
Less allowance for uncollectible pledges	(302)	(307)
Amounts recorded on statements of financial position	<u>\$ 28,438</u>	<u>\$ 32,284</u>

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

Subsequent Events

The Foundation evaluated subsequent events after June 30, 2016, through August 29, 2016, representing the date that these financial statements were available to be issued. The Foundation concluded that no material events or transactions occurred subsequent to June 30, 2016, that provided additional evidence about conditions that existed at June 30, 2016, or after, which 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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	\$ 2,148	\$ 12,931	\$ 6,339	\$ 21,418
Loss on uncollectible accounts	–	(278)	–	(278)
Investment income	1,768	93	–	1,861
Net realized gain on investments	272	208	950	1,430
Net unrealized loss on investments	(2,102)	(348)	(1,800)	(4,250)
Appropriations of endowment assets and fund transfers	(76)	818	(742)	–
Other revenue	287	–	–	287
Total revenues	<u>2,297</u>	<u>13,424</u>	<u>4,747</u>	<u>20,468</u>
Expenses				
Program services:				
Program distributions	269	15,578	9	15,856
Capital transfers to affiliates	11	1,461	–	1,472
Total program services	<u>280</u>	<u>17,039</u>	<u>9</u>	<u>17,328</u>
Support services:				
Fundraising	2,016	–	–	2,016
Program support	918	–	–	918
Administration	1,228	–	–	1,228
Total support services	<u>4,162</u>	<u>–</u>	<u>–</u>	<u>4,162</u>
Total expenses	<u>4,442</u>	<u>17,039</u>	<u>9</u>	<u>21,490</u>
Net asset transfers from affiliate	301	–	34	335
(Decrease) increase in net assets	(1,844)	(3,615)	4,772	(687)
Net assets at beginning of year	20,223	78,996	47,771	146,990
Net assets at end of year	<u>\$ 18,379</u>	<u>\$ 75,381</u>	<u>\$ 52,543</u>	<u>\$ 146,303</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, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
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
Total revenues	2,993	18,521	5,826	27,340
Expenses				
Program services:				
Program distributions	115	13,089	–	13,204
Capital transfers to affiliates	60	1,843	–	1,903
Total program services	175	14,932	–	15,107
Support services:				
Fundraising	1,812	–	–	1,812
Program support	975	–	–	975
Administration	960	–	–	960
Total support services	3,747	–	–	3,747
Total expenses	3,922	14,932	–	18,854
Net asset transfers from affiliates	–	2,729	12	2,741
Contribution received in donation of affiliate	4,779	1,021	457	6,257
Increase in net assets	3,850	7,339	6,295	17,484
Net assets at beginning of year	16,373	71,657	41,476	129,506
Net assets at end of year	\$ 20,223	\$ 78,996	\$ 47,771	\$ 146,990

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

2. Activities (continued)

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2016	2015
Hospital capital projects	\$ 6,073	\$ 6,420
Program activities and other	69,308	72,576
Amounts recorded on statements of financial position	\$ 75,381	\$ 78,996

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 120 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 was as follows:

	Temporarily Restricted	Permanently Restricted	Total
2016			
Donor-restricted endowment funds	<u>\$ 8,049</u>	<u>\$ 52,543</u>	<u>\$ 60,592</u>
2015			
Donor-restricted endowment funds	<u>\$ 7,987</u>	<u>\$ 47,771</u>	<u>\$ 55,758</u>

Changes in endowment net assets were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2015	\$ 7,987	\$ 47,771	\$ 55,758
Investment return:			
Net realized investment gains	164	950	1,114
Net unrealized loss on investments	(348)	(1,800)	(2,148)
Total investment loss	(184)	(850)	(1,034)
Contributions	24	6,339	6,363
Appropriation of endowment assets for expenditure	(378)	(1,758)	(2,136)
Other changes:			
Redesignation of donor funds	600	1,041	1,641
Endowment net assets at June 30, 2016	<u>\$ 8,049</u>	<u>\$ 52,543</u>	<u>\$ 60,592</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, 2014	\$ 8,108	\$ 41,476	\$ 49,584
Investment return:			
Net realized investment gains	366	1,805	2,171
Net unrealized 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	<u>\$ 7,987</u>	<u>\$ 47,771</u>	<u>\$ 55,758</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, 2016 or 2015.

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 7% 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 2% 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.

4. Investments

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 2,651	\$ 12,955
Short-term investments	1,626	1,034
U.S. Treasury securities	11,216	10,622
Corporate debt securities	11,556	10,037
Mortgage-backed securities	12,803	11,535
Mutual funds – fixed income	8,251	7,532
Mutual funds – international equity	29,877	26,534
Marketable equity securities	27,051	21,986
Commingled funds	33,834	33,334
	<u>138,865</u>	<u>135,569</u>
Due to broker, net	(1,317)	(1,720)
	<u>\$ 137,548</u>	<u>\$ 133,849</u>

Spectrum Health Foundation

Notes to Financial Statements (continued)

(In Thousands)

4. Investments (continued)

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.

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.

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

5. Fair Value Measurements (continued)

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.

The value of financial assets measured at fair value on a recurring basis was determined using the following inputs at June 30, 2016:

	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)
Financial assets				
Cash and cash equivalents	\$ 4,131	\$ 4,131	\$ –	\$ –
Short-term investments	1,626	1,294	332	–
U.S. treasury securities	11,216	11,216	–	–
Corporate debt securities	11,556	–	11,556	–
Mortgage-backed securities	12,803	–	12,803	–
Mutual funds – fixed income	8,251	8,251	–	–
Mutual funds – international equity	29,877	29,877	–	–
Marketable equity securities	27,051	27,051	–	–
Commingled funds	33,834	–	33,834	–
Total financial assets at fair value	140,345	\$ 81,820	\$ 58,525	\$ –
Due to broker, net	(1,317)			
	<u>\$ 139,028</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, 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)
Financial assets				
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 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 and commingled funds) 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, 2016.

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, 2016 and 2015, the Foundation made transfers totaling \$1,472 and \$1,903, respectively, to Spectrum Health Hospitals and other affiliates for capital purchases, as directed by the donors, and received \$2,148 and \$1,998, respectively, for operating expenses. Amounts due to affiliates of \$1,390 and \$1,979 at June 30, 2016 and 2015, 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 its 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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