

FINANCIAL STATEMENTS

Spectrum Health Foundation
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Spectrum Health Foundation

Financial Statements

Years Ended June 30, 2009 and 2008

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Report of Independent Auditors

The Board of Trustees
Spectrum Health Foundation

We have audited the accompanying statements of financial position of Spectrum Health Foundation as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spectrum Health Foundation as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 8, 2009

Spectrum Health Foundation

Statements of Financial Position
(In Thousands)

| | June 30 | |
|--|-------------------|-------------------|
| | 2009 | 2008 |
| Assets | | |
| Current assets: | | |
| Cash | \$ 37 | \$ 942 |
| Pledges receivable, net of allowance of \$481 in 2009 and \$152 in 2008 | 13,723 | 16,763 |
| Total current assets | <u>13,760</u> | <u>17,705</u> |
| Due from affiliates | 264 | 325 |
| Investments | 107,305 | 96,729 |
| Pledges receivable | 23,107 | 40,876 |
| Other assets | 3,093 | 1,645 |
| | <u>133,769</u> | <u>139,575</u> |
| Total assets | <u>\$ 147,529</u> | <u>\$ 157,280</u> |
| Liabilities and net assets | | |
| Accounts payable and accrued expenses | \$ 574 | \$ 1,765 |
| Due to affiliates | 9,434 | 1,473 |
| Net assets: | | |
| Unrestricted | (2,112) | 3,043 |
| Temporarily restricted | 122,523 | 130,416 |
| Permanently restricted | 17,110 | 20,583 |
| | <u>137,521</u> | <u>154,042</u> |
| Total liabilities and net assets | <u>\$ 147,529</u> | <u>\$ 157,280</u> |

See accompanying notes.

Spectrum Health Foundation

Statements of Activities (In Thousands)

| | Year Ended June 30 | |
|--|---------------------------|-------------|
| | 2009 | 2008 |
| Revenues | | |
| Contributions | \$ 7,413 | \$ 18,610 |
| Investment income | 1,802 | 2,898 |
| Net realized (losses) gains on investments | (4,399) | 1,958 |
| Net unrealized losses on investments | (4,882) | (7,979) |
| Other revenue | 2,771 | 2,671 |
| Total revenues | 2,705 | 18,158 |
| Expenses | | |
| Program services: | | |
| Program distributions | 3,893 | 8,052 |
| Capital transfers | 11,487 | 1,834 |
| Total program services | 15,380 | 9,886 |
| Support services: | | |
| Fund-raising | 1,735 | 1,836 |
| Program support | 1,098 | 1,112 |
| Administration | 1,013 | 1,099 |
| Total support services | 3,846 | 4,047 |
| Total expenses | 19,226 | 13,933 |
| (Decrease) increase in net assets | (16,521) | 4,225 |
| Net assets at beginning of year | 154,042 | 149,817 |
| Net assets at end of year | \$ 137,521 | \$ 154,042 |

See accompanying notes.

Spectrum Health Foundation

Statement of Functional Expenses
(In Thousands)

Year Ended June 30, 2009

| | Program Services | | | Support Services | | | | | Total |
|-----------------------------|------------------|-----------------|--------------|------------------------|-----------------|-----------------|-----------------|------------------------|------------------|
| | Pediatrics | Adult | Other | Total Program Services | Fund-raising | Program Support | Administration | Total Support Services | |
| Inpatient | \$ 1,121 | \$ 180 | \$ - | \$ 1,301 | \$ - | \$ - | \$ - | \$ - | \$ 1,301 |
| Outpatient | 187 | 126 | - | 313 | - | - | - | - | 313 |
| Prevention and advocacy | 1,335 | 21 | - | 1,356 | - | - | - | - | 1,356 |
| Research and education | 266 | 594 | - | 860 | - | - | - | - | 860 |
| Capital | 10,391 | 1,096 | - | 11,487 | - | - | - | - | 11,487 |
| Salaries and wages | - | - | - | - | 921 | 599 | 307 | 1,827 | 1,827 |
| Employee benefits | - | - | - | - | 269 | 176 | 129 | 574 | 574 |
| Professional fees | - | - | - | - | 186 | 162 | 65 | 413 | 413 |
| Publications and promotions | - | - | - | - | 171 | 99 | 4 | 274 | 274 |
| Other | - | - | 63 | 63 | 188 | 62 | 508 | 758 | 821 |
| | <u>\$ 13,300</u> | <u>\$ 2,017</u> | <u>\$ 63</u> | <u>\$ 15,380</u> | <u>\$ 1,735</u> | <u>\$ 1,098</u> | <u>\$ 1,013</u> | <u>\$ 3,846</u> | <u>\$ 19,226</u> |

Spectrum Health Foundation

Statement of Functional Expenses
(In Thousands)

Year Ended June 30, 2008

| | Program Services | | | Support Services | | | | | Total |
|-----------------------------|------------------|-----------------|---------------|------------------------|-----------------|-----------------|-----------------|------------------------|------------------|
| | Pediatrics | Adult | Other | Total Program Services | Fund-raising | Program Support | Administration | Total Support Services | |
| Inpatient | \$ 747 | \$ 114 | \$ - | \$ 861 | \$ - | \$ - | \$ - | \$ - | \$ 861 |
| Outpatient | 199 | 176 | - | 375 | - | - | - | - | 375 |
| Prevention and advocacy | 2,796 | 376 | - | 3,172 | - | - | - | - | 3,172 |
| Research and education | 822 | 2,583 | - | 3,405 | - | - | - | - | 3,405 |
| Capital | 164 | 1,670 | - | 1,834 | - | - | - | - | 1,834 |
| Salaries and wages | - | - | - | - | 945 | 644 | 327 | 1,916 | 1,916 |
| Employee benefits | - | - | - | - | 259 | 176 | 320 | 755 | 755 |
| Professional fees | - | - | - | - | 218 | 146 | 125 | 489 | 489 |
| Publications and promotions | - | - | - | - | 190 | 70 | 5 | 265 | 265 |
| Other | 20 | 104 | 115 | 239 | 224 | 76 | 322 | 622 | 861 |
| | <u>\$ 4,748</u> | <u>\$ 5,023</u> | <u>\$ 115</u> | <u>\$ 9,886</u> | <u>\$ 1,836</u> | <u>\$ 1,112</u> | <u>\$ 1,099</u> | <u>\$ 4,047</u> | <u>\$ 13,933</u> |

Spectrum Health Foundation

Statements of Cash Flows
(In Thousands)

| | Year Ended June 30 | |
|---|---------------------------|----------------|
| | 2009 | 2008 |
| Operating activities | | |
| Change in net assets | \$ (16,521) | \$ 4,225 |
| Noncash revenues and expenses included in change in net assets: | | |
| Provision for uncollectible contributions | (329) | (54) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Trading securities | (10,576) | (22,546) |
| Decrease in contributions receivable | 21,138 | 12,442 |
| Increase in other assets | (1,448) | (124) |
| Change in due to/from affiliates | 8,022 | 386 |
| Decrease in other liabilities | (1,191) | (212) |
| Net cash used in operating activities | <u>(905)</u> | <u>(5,883)</u> |
| Net decrease in cash | (905) | (5,883) |
| Cash at beginning of year | 942 | 6,825 |
| Cash at end of year | <u>\$ 37</u> | <u>\$ 942</u> |

See accompanying notes.

Spectrum Health Foundation

Notes to Financial Statements (In Thousands)

June 30, 2009

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 the western Michigan community 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 the western Michigan community. 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 of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, 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.

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.

Investments

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.

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 2008 have been reclassified to conform to the presentation used in 2009.

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

1. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards

The Foundation adopted the provisions of SFAS No. 165, *Subsequent Events*, on June 30, 2009. This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the date that the financial statements are issued or available to be issued. This statement requires disclosure of the date through which an entity has evaluated subsequent events. The disclosures required by this statement are included in Note 9 to the financial statements.

2. Activities

The Foundation's revenues and expenses and changes in net assets are summarized as follows at June 30, 2009:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|------------|
| Revenues | | | | |
| Contributions | \$ - | \$ 7,012 | \$ 401 | \$ 7,413 |
| Investment income | (2,205) | (3,622) | 7,629 | 1,802 |
| Net realized losses on investments | 130 | 4,094 | (8,623) | (4,399) |
| Net unrealized losses on investments | (1,885) | (859) | (2,138) | (4,882) |
| Appropriations of endowment assets and fund transfers | (274) | 1,024 | (750) | - |
| Other revenue | 2,771 | - | - | 2,771 |
| Total revenues | (1,463) | 7,649 | (3,481) | 2,705 |
| Expenses | | | | |
| Grants disbursed: | | | | |
| Program-related | (154) | 4,055 | (8) | 3,893 |
| Capital | - | 11,487 | - | 11,487 |
| Total disbursements | (154) | 15,542 | (8) | 15,380 |
| Support services: | | | | |
| Fund-raising | 1,735 | - | - | 1,735 |
| Program | 1,098 | - | - | 1,098 |
| Administration | 1,013 | - | - | 1,013 |
| Total support services | 3,846 | - | - | 3,846 |
| Total expenses | 3,692 | 15,542 | (8) | 19,226 |
| Decrease in net assets | (5,155) | (7,893) | (3,473) | (16,521) |
| Net assets at beginning of year | 3,043 | 130,416 | 20,583 | 154,042 |
| Net assets at end of year | \$ (2,112) | \$ 122,523 | \$ 17,110 | \$ 137,521 |

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 at June 30, 2008:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|---------------|
| Revenues | | | | |
| Contributions | \$ - | \$ 15,671 | \$ 2,939 | \$ 18,610 |
| Investment income | 1,546 | 1,014 | 338 | 2,898 |
| Net realized gains on investments | 20 | 1,454 | 484 | 1,958 |
| Net unrealized losses on investments | (4,533) | (960) | (2,486) | (7,979) |
| Appropriations of endowment assets and fund transfers | (103) | 584 | (481) | - |
| Other revenue | 2,671 | - | - | 2,671 |
| Total revenues | (399) | 17,763 | 794 | 18,158 |
| Expenses | | | | |
| Grants disbursed: | | | | |
| Program-related | 52 | 8,000 | - | 8,052 |
| Capital | - | 1,834 | - | 1,834 |
| Total disbursements | 52 | 9,834 | - | 9,886 |
| Support services: | | | | |
| Fund-raising | 1,836 | - | - | 1,836 |
| Program | 1,112 | - | - | 1,112 |
| Administration | 1,099 | - | - | 1,099 |
| Total support services | 4,047 | - | - | 4,047 |
| Total expenses | 4,099 | 9,834 | - | 13,933 |
| (Decrease) increase in net assets | (4,498) | 7,929 | 794 | 4,225 |
| Net assets at beginning of year | 7,541 | 122,487 | 19,789 | 149,817 |
| Net assets at end of year | \$ 3,043 | \$ 130,416 | \$ 20,583 | \$ 154,042 |

Temporarily restricted net assets are available for the following purposes:

| | June 30 | |
|---|-------------------|-------------------|
| | 2009 | 2008 |
| Hospital capital projects | \$ 95,346 | \$ 102,537 |
| Program activities and other | 27,177 | 27,879 |
| Amounts recorded in statements of financial position | \$ 122,523 | \$ 130,416 |

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

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

3. Endowment

In August 2008, FASB Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Product Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, was issued. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Product Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. As of June 30, 2009, the state of Michigan has not enacted UPMIFA. Therefore, the Foundation is only subject to the enhanced disclosure provisions.

The Foundation's endowment consists of approximately 80 individual funds established for a variety of purposes. Its endowment includes 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 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 are not classified in permanently restricted net assets are 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)

At June 30, 2009, the endowment net assets composition by type of fund consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|--------------|---------------------------|---------------------------|-----------|
| Donor-restricted endowment funds | \$ - | \$ 5,183 | \$ 17,110 | \$ 22,293 |
| Total funds | \$ - | \$ 5,183 | \$ 17,110 | \$ 22,293 |

For the year ended June 30, 2009, the changes in the endowment net assets are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|-----------|
| Endowment net assets, beginning of year | \$ - | \$ 6,773 | \$ 20,583 | \$ 27,356 |
| Investment return: | | | | |
| Net realized investment losses and investment income | - | (363) | (994) | (1,357) |
| Net unrealized losses on investments | - | (859) | (2,138) | (2,997) |
| Total investment loss | - | (1,222) | (3,132) | (4,354) |
| Contributions | - | - | 401 | 401 |
| Appropriation of endowment assets for expenditure | - | (368) | (961) | (1,329) |
| Other changes: | - | - | - | - |
| Re-designation of donor funds | - | - | 219 | 219 |
| Endowment net assets, end of year | \$ - | \$ 5,183 | \$ 17,110 | \$ 22,293 |

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

3. Endowment (continued)

At June 30, 2008, the endowment net assets composition by type of fund consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|--------------|---------------------------|---------------------------|-----------|
| Donor-restricted endowment funds | \$ — | \$ 6,773 | \$ 20,583 | \$ 27,356 |
| Total funds | \$ — | \$ 6,773 | \$ 20,583 | \$ 27,356 |

For the year ended June 30, 2008, the changes in the endowment net assets are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|-----------|
| Endowment net assets, beginning of year | \$ — | \$ 7,753 | \$ 19,789 | \$ 27,542 |
| Investment return: | | | | |
| Net realized investment gains and investment income | — | 320 | 822 | 1,142 |
| Net unrealized losses on investments | — | (960) | (2,486) | (3,446) |
| Total investment loss | — | (640) | (1,664) | (2,304) |
| Contributions | — | — | 2,939 | 2,939 |
| Appropriation of endowment assets for expenditure | — | (340) | (869) | (1,209) |
| Other changes: | | | | |
| Re-designation of donor funds | — | — | 388 | 388 |
| Endowment net assets, end of year | \$ — | \$ 6,773 | \$ 20,583 | \$ 27,356 |

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, 2009 or 2008.

Spectrum Health Foundation

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

3. Endowment (continued)

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 long-term rate of returns which exceed 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.

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 cost and carrying amount of the Foundation's investments at June 30 are as follows:

| | June 30 | | | |
|-------------------------------------|-------------------|-------------------|------------------|------------------|
| | 2009 | | 2008 | |
| | Cost | Fair Value | Cost | Fair Value |
| Cash and cash equivalents | \$ 64,399 | \$ 64,407 | \$ 32,097 | \$ 32,097 |
| Short-term investments | 682 | 682 | 703 | 703 |
| Commercial paper | - | - | 6,992 | 7,012 |
| Short-term domestic bonds | 3,400 | 3,400 | 11,490 | 11,485 |
| U.S. Treasury securities | 1,044 | 1,097 | 1,762 | 1,809 |
| Corporate debt securities | 2,649 | 2,667 | 2,653 | 2,534 |
| Mortgage-backed securities | 5,127 | 5,093 | 7,297 | 7,194 |
| Mutual funds – equity | 13,841 | 10,313 | 12,511 | 10,972 |
| Mutual funds – international equity | 11,539 | 8,946 | 8,740 | 9,536 |
| Marketable equity security | 11,710 | 10,700 | 14,688 | 13,387 |
| | <u>\$ 114,391</u> | <u>\$ 107,305</u> | <u>\$ 98,933</u> | <u>\$ 96,729</u> |

5. Fair Value Measurements

Effective July 1, 2008, the Foundation adopted SFAS No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value of certain assets and liabilities and expands disclosures about fair value measurements. As defined in SFAS 157, 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. SFAS 157 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

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.

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

5. Fair Value Measurements (continued)

In February 2008, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*, which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. As a result of adopting SFAS 159, the Foundation did not elect fair value accounting for any additional assets or liabilities.

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 defined by SFAS 157 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 financial 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 fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at June 30, 2009:

| | <u>Fair Value Measurements at Reporting Date Using</u> | | | |
|--------------------------------------|--|---|--|--|
| | Fair Market Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Cash and cash equivalents | \$ 64,444 | \$ 64,400 | \$ 44 | \$ - |
| Fixed income securities | 12,257 | 1,097 | 11,160 | - |
| Common stock and mutual funds | 30,641 | 30,265 | 376 | - |
| Total financial assets at fair value | <u>\$ 107,342</u> | <u>\$ 95,762</u> | <u>\$ 11,580</u> | <u>\$ -</u> |

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities were determined through evaluated bid prices based on recent trading activity including market interest rate curves and referenced credit spreads, and estimated prepayment rates where applicable are used for valuation purposes provided by third-party pricing services where quoted market values are not available. Due to the volatility of the capital markets, there is a reasonable possibility of significant changes in fair value and additional gains (losses) in the near term subsequent to June 30, 2009.

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.

Spectrum Health Foundation

Notes to Financial Statements (continued) (In Thousands)

6. Pledges Receivable

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

| | June 30 | |
|--|----------------|-------------|
| | 2009 | 2008 |
| In less than one year | \$ 16,088 | \$ 18,988 |
| In one to five years | 21,896 | 39,417 |
| In more than five years | 5,149 | 7,290 |
| | 43,133 | 65,695 |
| Less amount representing interest | (5,822) | (7,904) |
| Less allowance | (481) | (152) |
| Amounts recorded in statements of financial position | \$ 36,830 | \$ 57,639 |

7. Related-Party Transactions

During the years ended June 30, 2009 and 2008, the Foundation made transfers totaling \$12,056 and \$1,834, respectively, to Spectrum Health Hospitals for capital purchases, as directed by the donors, and received \$2,178 and \$2,478, respectively, for operating expenses. Amounts due from affiliates of \$264 at June 30, 2009, and \$325 at June 30, 2008, primarily represent reimbursement of operating expenses due from Spectrum Health System. Amounts due to affiliates of \$9,434 at June 30, 2009, and \$1,473 at June 30, 2008, primarily represent transfers to be made to Spectrum Health System in relation to capital expenditures.

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

Pursuant to SFAS No. 165, *Subsequent Events*, the Foundation evaluated subsequent events after June 30, 2009 through September 8, 2009, 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, 2009, that provided additional evidence about conditions that existed at June 30, 2009, or after that require adjustments to or disclosure in the financial statements.