



**ANDERSON, TACKMAN & COMPANY, PLC**

**Certified Public Accountants**

*"A Regional Firm With Offices In Michigan And Wisconsin"*

102 W. Washington St. Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

**PARTNERS**

Daniel E. Bianchi, CPA

Michael A. Greutz, CPA

William C. Sheltrow, CPA

**Portage Health Foundation**

Communication with Those Charged with Governance

For the Year Ended December 31, 2016

June 21, 2017

To the Board of Directors of the  
Portage Health Foundation  
400 Quincy Street – PO Box 299  
Hancock, MI 49930

We have audited the financial statements of Portage Health Foundation for the year ended December 31, 2016, and have issued our report thereon dated June 21, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 14, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Portage Health Foundation are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the accumulated depreciation and depreciation expense is based on historical costs and useful lives of the assets. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the equity investment in Portage Health, Inc., Copper Country Apothecaries, Inc. and Portage Physician Practices, Inc. in the notes to the financial statements. Equity investments are recorded using the equity method of accounting. Equity investments are inherently risky, and their success depends on, market acceptance, operational efficiency, and other key business factors. The companies could fail or not be able to raise additional funds when needed, or they may receive lower valuations with less favorable investment terms than previous financings. These events could cause the investments to become impaired. In addition, financial market volatility could negatively affect the ability to realize value in the investments through liquidity events such as initial public offerings, mergers, and private sales.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 21, 2017.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Board of Directors of the  
Portage Health Foundation

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors of Portage Health Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants



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**PARTNERS**

Daniel E. Bianchi, CPA

Michael A. Grentz, CPA

William C. Sheltrou, CPA

**Portage Health Foundation**  
Report to Management  
For the Year Ended December 31, 2016

To the Board of Directors of the  
Portage Health Foundation  
500 Campus Drive  
Hancock, Michigan 49930

In planning and performing our audit of the financial statements of Portage Health Foundation as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Portage Health Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Foundation, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

June 21, 2017

**PORTAGE HEALTH FOUNDATION**

**AUDITED FINANCIAL STATEMENTS**

**For the years ended December 31, 2016 and 2015**



## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report .....	3
Statements of Financial Position .....	5
Statements of Activities .....	6
Statements of Functional Expenses .....	7
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9

### **SUPPLEMENTARY INFORMATION**

Independent Auditor's Report on Supplementary Information .....	17
Statements of Operating Resources and Expenses - Modified Cash Basis, Compared to Budget .....	18
Schedule of Grant Awards - Cash Basis .....	20
Schedule of Grant Awards Payable .....	21
Schedule of Temporarily Restricted Net Assets .....	22



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PARTNER

Daniel E. Bianchi, CP

Michael A. Greutz, CP

William C. Shellrow, CP

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Portage Health Foundation  
400 Quincy Street – P.O. Box 299  
Hancock, MI 49930

We have audited the accompanying financial statements of Portage Health Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statement 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Board of Directors of the  
Portage Health Foundation

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Portage Health Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants  
Marquette, MI

June 21, 2017



**PORTAGE HEALTH FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 152,887	\$ 998,512
Pledges receivable	236,400	-
Prepaid expenses	4,182	9,993
Investments, at fair value	50,280,467	47,166,153
Investments, at fair value, held by KC Foundation	21,036	19,675
Equity investment	8,885,554	9,210,632
Property and equipment, net	<u>56,048</u>	<u>60,047</u>
TOTAL ASSETS	<u>\$59,636,574</u>	<u>\$ 57,465,012</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 12,722	\$ 549
Payroll liabilities	11,359	11,070
Grants payable	<u>1,836,350</u>	<u>2,350,000</u>
TOTAL LIABILITIES	<u>1,860,431</u>	<u>2,361,619</u>
<b>NET ASSETS</b>		
Unrestricted net assets	57,427,457	55,090,710
Temporarily restricted net assets	<u>348,686</u>	<u>12,683</u>
TOTAL NET ASSETS	<u>57,776,143</u>	<u>55,103,393</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$59,636,574</u>	<u>\$ 57,465,012</u>

See accompanying notes and independent auditor's report.

**PORTAGE HEALTH FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**For the years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and other support:		
Contributions	\$ 9,829	\$ 3,104,107
Fundraising	37,222	39,541
Interest and dividends	1,095,746	1,068,193
Grant refund	640	-
Other income (loss)	1,010	284
Unrealized gain (loss) on investment securities	2,785,978	(2,089,395)
Realized gain (loss) on investment securities	(265,650)	934,151
Total revenues and other support	<u>3,664,775</u>	<u>3,056,881</u>
Expenses:		
Program expenses	640,432	2,934,744
Management and general expenses	484,274	435,655
Fundraising expenses	22,051	19,485
Total expenses	<u>1,146,757</u>	<u>3,389,884</u>
Net assets released from restriction:		
Satisfaction of continuing education	9,786	3,258
Satisfaction of drug prevention education and enforcement	134,021	-
Total net assets released from restriction	<u>143,807</u>	<u>3,258</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>2,661,825</u>	<u>(329,745)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	479,810	7,941
Net assets released from restrictions	(143,807)	(3,258)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>336,003</u>	<u>4,683</u>
OTHER INCOME/(EXPENSE)		
Portage Equity Joint Venture gain/(loss)	(325,078)	24,941
TOTAL OTHER INCOME/(EXPENSE)	<u>(325,078)</u>	<u>24,941</u>
INCREASE IN NET ASSETS	2,672,750	(300,121)
Net assets at beginning of year	<u>55,103,393</u>	<u>55,403,514</u>
NET ASSETS AT END OF YEAR	<u>\$ 57,776,143</u>	<u>\$ 55,103,393</u>

See accompanying notes and independent auditor's report.

**PORTAGE HEALTH FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
PROGRAM EXPENSES		
Grant Awards	\$ 640,432	\$ 2,934,744
TOTAL PROGRAM EXPENSES	<u>640,432</u>	<u>2,934,744</u>
MANAGEMENT AND GENERAL EXPENSES		
Personnel costs	297,102	265,383
Advertising and promotion	24,511	23,906
Professional fees	60,931	63,248
Office expenses	14,893	15,789
Donations	-	461
Dues and subscriptions	6,127	4,864
Education/staff and board development	31,231	6,674
IT maintenance/management	4,537	3,956
Rent expense	11,490	10,950
Liability insurance	7,954	6,784
Travel	1,731	10,998
Conference/convention	-	360
Meetings/luncheons	8,952	7,979
Computer hardware/software	95	1,862
Depreciation	11,683	10,205
Investment account fees	397	398
Miscellaneous	2,640	1,838
TOTAL MANAGEMENT AND GENERAL EXPENSES	<u>484,274</u>	<u>435,655</u>
FUNDRAISING EXPENSES	-	-
Annual ball expenses	20,077	19,372
Event coordination	1,974	113
TOTAL FUNDRAISING EXPENSES	<u>22,051</u>	<u>19,485</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,146,757</u>	<u>\$ 3,389,884</u>

See accompanying notes and independent auditor's report.

**PORTAGE HEALTH FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,672,750	\$ (300,121)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	11,683	10,205
(Increase) Decrease in prepaid expenses	5,811	(6,193)
(Increase) Decrease in pledges receivable	(236,400)	1,000
(Increase) Decrease in employee advance	-	3,000
Increase (Decrease) in accounts payable	12,173	(25,236)
Increase (Decrease) in grants payable	(513,650)	2,200,000
Increase (Decrease) in accrued payroll liabilities	289	5,256
Contributions placed in investment accounts	-	(2,757,941)
Interest and dividends on investment accounts, net of fees	(1,095,745)	(1,067,795)
Net unrealized and realized gains on investment accounts	<u>(2,519,930)</u>	<u>1,155,244</u>
Total Adjustments	<u>(4,335,769)</u>	<u>(482,460)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 (1,663,019)	 (782,581)
 <b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Investment returns withdrawn for current operations	500,000	473,750
Investment returns withdrawn for grant awards	-	1,200,000
(Gain) Loss on joint venture equity investments	325,078	(24,941)
Office equipment and furniture purchases	<u>(7,684)</u>	<u>(20,354)</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 817,394	 1,628,455
 NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	 <u>(845,625)</u>	 <u>845,874</u>
 Cash and cash equivalents, beginning of year	 <u>998,512</u>	 <u>152,638</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 152,887</u>	 <u>\$ 998,512</u>
 <b>NON CASH INVESTING ACTIVITIES</b>		
Donated investment securities	\$ -	\$ 7,941
Gain (Loss) on joint venture equity investments	\$ (325,078)	\$ 24,941

See accompanying notes and independent auditor's report.

**PORTAGE HEALTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE A - PURPOSE OF FOUNDATION**

Portage Health Foundation (hereinafter referred to as "The Foundation") is a Michigan non-profit corporation. The Foundation's charitable purpose is to make grants, scholarships, donations, program or mission-related investments, and other similar expenditures in furtherance of its mission. The Foundation's mission is to support the charitable health needs of the community through enhanced philanthropy and community collaboration.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The financial statements have been prepared in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide for Not-for-Profit Organizations. The Foundation follows Statement of Financial Accounting Standards (FASB ASC 958), Financial Statements of Not-for-Profit Organizations. In accordance with FASB ASC 958, net assets are classified into three types; unrestricted, temporarily restricted, and permanently restricted, based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets - Those resources over which the Board has discretionary control.

Temporarily restricted net assets - Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Board or by the passage of time.

Change in Temporarily Restricted Net Assets:	2016	2015
Beginning balance	\$ 12,683	\$ 8,000
Amount released from restriction	(143,807)	(3,258)
Additional restricted donation	479,810	7,941
Ending balance of temporarily restricted net assets	<u>\$ 348,686</u>	<u>\$ 12,683</u>

Permanently restricted net assets - Those resources subject to donor-imposed restrictions that they be maintained permanently by the Board. Generally, the donors of these resources will allow the Board to utilize all or part of the income earned on the related investments for unrestricted or temporarily restricted purposes.

The Foundation uses the equity method to account for investments in companies, if our investment provides us with the ability to exercise significant influence over operating and financial policies of the investee. Our judgment regarding the level of influence over each equity method investment includes considering key factors such as our ownership interest, representation on the board of directors and participation in policy-making decisions.

**PORTAGE HEALTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2016

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting. The financial statements are prepared in accordance with the requirements of FASB ASC 958-605, Accounting for Contributions Received and Contributions Made; FASB ASC 958, Financial Statements of Not-for-Profit Organizations; FASB ASC 958-320, Accounting for Certain Investments Held by Not-for-Profit Organizations; and FASB ASC 9520, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others.

**Cash and Cash Equivalents**

Cash and cash equivalents are comprised of demand deposits and time deposits with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair market value because of the short maturities of those financial investments.

**Property and Equipment**

Property and equipment are recorded on the cost basis if purchased and fair value if donated. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets. Depreciation expenses for the years ended December 31, 2016 and December 31, 2015 were \$11,683 and \$10,205, respectively.

**Investment Securities**

Investments are carried at fair value, determined by quoted market prices, if available.

**Contributions**

The Foundation reports gifts of cash and other assets as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions.

**Unrestricted net assets** - Those resources over which the Board has discretionary control.

**Temporarily restricted net assets** - Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Board or by the passage of time.

**Permanently restricted net assets** - Those resources subject to donor-imposed restrictions that they be maintained permanently by the Board. Generally, the donors of these resources will allow the Board to utilize all or part of the income earned on the related investments for unrestricted or temporarily restricted purposes.

**PORTAGE HEALTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2016

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Grants Payable

Grants expenses are accrued when they are approved by the Board of Trustees for payment. A grant in the amount of \$2,500,000 to be paid over 5 years was awarded in 2015. Additional grants to be paid in 2017 were approved in 2016. The remaining payment schedule for grants payable is as follows:

2017	\$	586,350
2018		500,000
2019		<u>750,000</u>
	\$	<u>1,836,350</u>

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation files Form 990 with the Internal Revenue Service. The Foundation believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Foundation's financial position, results of activities, or cash flows. The Foundation's returns are generally no longer subject to examination by the Internal Revenue Service for years before 2013.

Foreign Taxes

Foreign taxes paid within investment accounts during the years ended December 31, 2016 and December 31, 2015 were \$11,177 and \$13,217, respectively. The realized gain on investment securities is reported net of foreign taxes paid.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2016 and December 31, 2015 were \$24,511 and \$23,906, respectively.

Donated Services and Facilities

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, and (c) require specialized skills and are provided by individuals possessing those skills.



**PORTAGE HEALTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2016

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Subsequent Events

Subsequent events have been evaluated through June 21, 2017, the date on which the financial statements were available to be issued.

**NOTE C - CASH**

Custodial Credit Risk - Deposits

The Foundation's cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The book and bank cash balance at December 31, 2016 are \$152,887 and \$155,231, of which all is FDIC insured.

**NOTE D - PLEDGES RECEIVABLE**

During 2016, The Foundation initiated the UPSET West program. There are unconditional promises to give in support of this program. An unconditional promise is a promise to give that depends only on the passage of time or demand by the promisee for performance. There is no allowance for doubtful pledges, as all outstanding pledges are considered collectible.

Unconditional promises to give relating to the UPSET West program consist of the following as of December 31, 2016:

	< 1 Year	1-5 Years	> 5 Years
Pledges receivable	\$ 110,200	\$ 126,200	\$ -

**NOTE E - INVESTMENT SECURITIES**

The cost, market value, and unrealized appreciation (depreciation) of investment securities at December 31, 2016 are as follows:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market funds	\$ 1,834	\$ 1,834	\$ -
Mutual funds	51,119,828	50,278,633	(841,195)
<b>TOTAL</b>	<b>\$ 51,121,662</b>	<b>\$ 50,280,467</b>	<b>\$ (841,195)</b>

**PORTAGE HEALTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2016

**NOTE E - INVESTMENT SECURITIES (CONTINUED)**

The cost, market value, and unrealized appreciation (depreciation) of investment securities at December 31, 2015 are as follows:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market funds	\$ 8,270	\$ 8,270	\$ -
Mutual funds	50,812,412	47,157,883	(3,654,529)
<b>TOTAL</b>	<b>\$ 50,820,682</b>	<b>\$ 47,166,153</b>	<b>\$ (3,654,529)</b>

The following tables presents information about the Foundation's investments measured at fair value on a recurring basis and the valuation techniques used by the Foundation to determine those fair values. The FASB ASC 820 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

Level 1 - Inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.

Level 2 - Inputs consist of observable inputs other than quoted prices for identical assets.

Level 3 - Inputs consist of unobservable inputs and have the lowest priority.

	Fair Value	Fair Value at December 31, 2016		
		Level 1	Level 2	Level 3
Money market funds	\$ 1,834	\$ -	\$ 1,834	\$ -
Mutual funds - bonds	13,490,765	13,490,765	-	-
Mutual funds - stocks	36,787,868	36,787,868	-	-
<b>TOTAL INVESTMENTS</b>	<b>\$ 50,280,467</b>	<b>\$ 50,278,633</b>	<b>\$ 1,834</b>	<b>\$ -</b>

	Fair Value	Fair Value at December 31, 2015		
		Level 1	Level 2	Level 3
Money market funds	\$ 8,270	\$ -	\$ 8,270	\$ -
Mutual funds - bonds	13,587,585	13,587,585	-	-
Mutual funds - stocks	33,570,298	33,570,298	-	-
<b>TOTAL INVESTMENTS</b>	<b>\$ 47,166,153</b>	<b>\$ 47,157,883</b>	<b>\$ 8,270</b>	<b>\$ -</b>

The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

**PORTAGE HEALTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE F - EQUITY INVESTMENT**

On December 1, 2013, the entities of Portage Health, Inc., Copper Country Apothecaries, Inc., Portage Physician Practices, Inc., Portage Home Health, Portage Hospice, Portage Pointe, LifePoint Holdings 2, LLC, and Portage Holding Company, LLC (hereinafter referred to as the "Joint Venture") became parties to a Joint Venture Contribution Agreement to operate a community hospital. As part of the transaction, Portage Health, Inc., Copper Country Apothecaries, Inc., and Portage Physician Practices, Inc. contributed certain assets, primarily Portage Health Hospital, to the Joint Venture in exchange for cash consideration and all of the Class A Units of the Joint Venture.

Upon completion of the joint venture transaction, Portage Health, Inc. assigned the units and cash received to the Foundation to be administered under the charitable agreed purpose specified in the Charitable Assets Agreement between the Michigan Department of Attorney General and the Foundation. The Class A Units represent a 20% equity interest in the Joint Venture, which is accounted for by the equity method. Condensed financial information from the unaudited financial statements of the Joint Venture is as follows:

<u>Summary of Consolidated Balance Sheets</u>	<u>2016</u>	<u>2015</u>
Assets		
Current assets	\$ 25,273,548	\$ 17,405,136
Noncurrent assets	44,021,126	39,842,518
Total assets	<u>\$ 69,294,674</u>	<u>\$ 57,247,654</u>
Liabilities and Equity		
Current liabilities	\$ 5,555,938	\$ 5,729,839
Noncurrent liabilities	19,310,964	5,464,656
Equity	44,427,772	46,053,159
Total liabilities and equity	<u>\$ 69,294,674</u>	<u>\$ 57,247,654</u>
 <u>Summary of Consolidated Income Statements</u>		
Revenue	\$ 73,910,013	\$ 75,057,581
EBITDA	\$ 3,051,365	\$ 5,513,829
Net income (loss)	\$ (1,625,396)	\$ 152,271
 Foundation's Equity (20% of above Equity)	 \$ 8,885,554	 \$ 9,210,632

**PORTAGE HEALTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE G - PROPERTY AND EQUIPMENT**

The composition of property and equipment at cost is as follows:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 74,168	\$ 66,484
Foundation software	-	18,615
Leasehold improvements	<u>10,695</u>	<u>10,694</u>
	84,863	95,793
Less Accumulated Depreciation	<u>(28,815)</u>	<u>(35,747)</u>
TOTAL	<u>\$ 56,048</u>	<u>\$ 60,047</u>

**NOTE H - ACCUMULATED PAID TIME OFF**

Regular, full-time employees are eligible for paid time off (PTO). New hires begin accruing PTO hours each pay period according to the following schedule:

Anniversary years 1 and 2:	15 days/year (.0577 hours per pay period)
Anniversary years 3 and 4:	20 days/year (.077 hours per pay period)
Anniversary years 5 and 6:	23 days/year (.088 hours per pay period)
Anniversary years 7 +:	25 days/year (.961 hours per pay period)

PTO does not carry over from one year to the next. Therefore, any unused PTO at the end of an employee's anniversary year is forfeited without pay.

**NOTE I - PENSION PLAN**

The Foundation established the Portage Health Foundation 401(k) Plan effective September 1, 2014. Eligible participants may make elective deferral contributions and receive matching and profit sharing contributions on the first day of each plan quarter, coincident with or next following the date the employee attains age 18, and completes 480 hours of service in a 3-month period, provided the employee is still employed at the end of that period. If the service requirement is not met in the first consecutive period of months, the employee will be eligible to participate upon completion of one year of service with a minimum of 1,000 hours. Matching contributions, profit sharing contributions, and qualified non-elective contributions are determined at the discretion of the Foundation. Profit sharing contributions of 8% of compensation were made on behalf of eligible participants for the Plan years ending December 31, 2016 and December 31, 2015, with pension expenses totaling \$19,429 and \$15,474, respectively.

**NOTE J - OPERATING LEASE**

The Foundation leases office space under an operating agreement that expires in March, 2021. Total rent expense was \$11,490 for the year ended December 31, 2016, and \$10,950 for the year ended December 31, 2015. Future minimum rental commitments under this operating lease approximate \$50,160.

**SUPPLEMENTARY INFORMATION**



**ANDERSON, TACKMAN & COMPANY, PLC**  
**Certified Public Accountants**

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PARTNER

Daniel E. Bianchi, CP

Michael A. Grentz, CP

William C. Shelton, CP

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of the  
Portage Health Foundation  
400 Quincy Street – P.O. Box 299  
Hancock, MI 49930

We have audited the financial statements of Portage Health Foundation (a nonprofit organization) as of and for the years ended December 31, 2016 and 2015, and our report thereon dated June 21, 2017, which expressed an unmodified opinion on those financial statements, as appears in the table of contents. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statements of Operating Resources and Expenses – Modified Cash Basis Compared to Budget, Schedule of Grant Awards Payable – Cash Basis, Schedule of Grant Awards Payable, and Schedule of Temporarily Restricted Net Assets is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants  
Marquette, MI

June 21, 2017

**PORTAGE HEALTH FOUNDATION**  
**STATEMENTS OF OPERATING RESOURCES AND EXPENSES - MODIFIED CASH BASIS**  
**COMPARED TO BUDGET**

For the years ended December 31, 2016 and 2015

	2016		2015	
	Actual	Budget	Actual	Budget
<b>RESOURCES</b>				
Revenues				
Unrestricted donor contributions	\$ 9,829	\$ 9,000	\$3,104,107	\$ 6,000
Restricted donor contributions - cash basis	123,410	75,000	-	75,000
Grant refund	640	-	-	-
Other income	1,010	-	284	-
Event contributions	37,222	50,000	39,541	40,000
Other Resources				
Investment returns withdrawn for current operations	500,000	1,491,940	473,750	1,295,000
TOTAL RESOURCES	<u>672,111</u>	<u>1,625,940</u>	<u>3,617,682</u>	<u>1,416,000</u>
<b>PROGRAM EXPENSES</b>				
Unrestricted grant awards - cash basis	921,975	514,500	2,934,744	911,000
Restricted grant awards - cash basis	121,893	613,500	-	31,000
TOTAL PROGRAM EXPENSES	<u>1,043,868</u>	<u>1,128,000</u>	<u>2,934,744</u>	<u>942,000</u>
<b>MANAGEMENT AND GENERAL EXPENSES</b>				
Personnel Costs				
Salaries & wages	225,777	216,950	189,011	191,355
Health insurance	30,106	46,800	40,179	60,396
401(k) plan	19,429	17,001	15,474	12,735
Life & disability insurance	3,194	5,395	2,982	4,380
Professional recruitment	-	-	1,865	-
Payroll tax expense	18,597	25,523	15,873	21,816
Total Personnel Costs	<u>297,103</u>	<u>311,669</u>	<u>265,384</u>	<u>290,682</u>
Advertising and Promotion				
Promotion/advertising/sponsor	15,896	15,000	12,394	6,000
Graphic design/production	4,185	15,000	10,812	6,000
Web design/maintenance	4,430	2,000	700	1,200
Total Advertising and Promotion	<u>24,511</u>	<u>32,000</u>	<u>23,906</u>	<u>13,200</u>
Professional Fees				
Legal fees	-	3,000	544	6,000
Accounting	19,095	12,000	13,639	12,000
Investment management fees	38,135	20,000	45,464	69,000
Audit fees	3,700	3,600	3,600	-
Total Professional Fees	<u>60,930</u>	<u>38,600</u>	<u>63,247</u>	<u>87,000</u>
Office Expenses				
Postage and mailing services	1,987	3,600	1,822	2,400
Printing and copying	2,415	-	3,239	-
Office supplies	5,809	6,000	6,625	4,800
Telephone/internet	4,293	4,320	4,065	3,720
Bank service charges	389	100	38	-
Total Office Expenses	<u>14,893</u>	<u>14,020</u>	<u>15,789</u>	<u>10,920</u>

See independent auditor's report on supplementary information.



**PORTAGE HEALTH FOUNDATION**  
**STATEMENTS OF OPERATING RESOURCES AND EXPENSES - MODIFIED CASH BASIS**  
**COMPARED TO BUDGET**

For the years ended December 31, 2016 and 2015

	2016		2015	
	Actual	Budget	Actual	Budget
Other Expenses				
Donations	-	-	461	-
Dues and subscriptions	6,127	7,800	4,864	7,800
Education/staff and board development	31,231	13,500	6,674	10,200
IT maintenance/management	4,537	3,000	3,956	2,640
Rent expense	11,490	11,400	10,950	11,175
Liability insurance	7,954	7,500	6,784	7,500
Travel	1,731	8,000	10,998	5,000
Conference/convention	-	-	360	-
Meetings/luncheons	8,952	5,000	7,979	-
Computer hardware/software	95	9,800	1,862	3,600
Depreciation	11,683	10,200	10,205	4,200
Investment account fees	397	-	398	-
Miscellaneous	2,640	448	1,838	-
Total Other Expenses	<u>86,837</u>	<u>76,648</u>	<u>67,329</u>	<u>52,115</u>
Less Management and General Expenses Reclassified to Restricted Grant Awards	<u>(9,786)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL MANAGEMENT AND GENERAL EXPENSE	<u>474,488</u>	<u>472,937</u>	<u>435,655</u>	<u>453,917</u>
FUNDRAISING EXPENSES				
Event coordination	22,051	25,000	19,485	19,980
TOTAL FUNDRAISING EXPENSES	<u>22,051</u>	<u>25,000</u>	<u>19,485</u>	<u>19,980</u>
TOTAL EXPENSES	<u>1,540,407</u>	<u>1,625,937</u>	<u>3,389,884</u>	<u>1,415,897</u>
NET OPERATING RESOURCES/(EXPENSES)	<u>\$ (868,296)</u>	<u>\$ 3</u>	<u>\$ 227,798</u>	<u>\$ 103</u>

See independent auditor's report on supplementary information.

**PORTAGE HEALTH FOUNDATION**  
**SCHEDULE OF GRANT AWARDS - CASH BASIS**  
**For the year ended December 31, 2016**

GRANT AWARDS

Gogebic Community College	\$ 10,000
CCISD	50,000
MSU College of Human Medicine	10,000
NMU Foundation	10,000
Michigan Tech University	10,000
Michigan Tech University	500,000
Finlandia University	10,000
Houghton Schools	4,975
UP Kids	2,000
Ontonagon County Cancer Association	1,000
Keweenaw Community Foundation	650
UPSET West (City of Houghton)	112,107
Ruppe (continuing education)	9,786
(9) \$500 Scholarships to area high school graduates	4,500
Access to Care	2,600
Finlandia University	225,000
Dial Help	60,000
Barbara Kettle Gundlach	20,000
Friends of the Porkies	<u>1,250</u>
TOTAL GRANT AWARDS	<u>\$ 1,043,868</u>

See independent auditor's report on supplementary information.

**PORTAGE HEALTH FOUNDATION**  
**SCHEDULE OF GRANT AWARDS PAYABLE**  
**For the year ended December 31, 2016**

	<u>MTU</u>	<u>CCISD</u>	<u>Other</u>	<u>TOTAL</u>
GRANTS PAYABLE AT BEGINNING OF YEAR	\$ 2,250,000	\$ 100,000	\$ -	\$ 2,350,000
Pledged Awards	-	-	36,350	36,350
Payments	<u>(500,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>(550,000)</u>
GRANTS PAYABLE AT END OF PERIOD	<u>\$ 1,750,000</u>	<u>\$ 50,000</u>	<u>\$ 36,350</u>	<u>\$ 1,836,350</u>
Payment Schedule				
2017	\$ 500,000	\$ 50,000	\$ 36,350	\$ 586,350
2018	500,000			500,000
2019	750,000			750,000
2020				-

See independent auditor's report on supplementary information.

**PORTAGE HEALTH FOUNDATION**  
**SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS**  
**For the year ended December 31, 2016**

	<u>Ruppe Foundation</u>	<u>UPSET West</u>	<u>TOTAL</u>
TEMPORARILY RESTRICTED NET ASSETS AT BEGINNING OF YEAR	\$ 12,683	\$ -	\$ 12,683
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	-	123,410	123,410
PHF interfund gift	-	120,000	120,000
Pledges promised:			
2016	-	4,000	4,000
2017	-	106,200	106,200
2018	-	106,200	106,200
2019	-	10,000	10,000
2020	-	10,000	10,000
	<u>-</u>	<u>479,810</u>	<u>479,810</u>
Net assets released from restriction:			
Satisfaction of continuing education	(9,786)		(9,786)
Satisfaction of drug enforcement		(134,021)	(134,021)
	<u>(9,786)</u>	<u>345,789</u>	<u>336,003</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(9,786)</u>	<u>345,789</u>	<u>336,003</u>
TEMPORARILY RESTRICTED NET ASSETS AT END OF PERIOD	<u>\$ 2,897</u>	<u>\$ 345,789</u>	<u>\$ 348,686</u>

See independent auditor's report on supplementary information.