



ANDERSON, TACKMAN & COMPANY, PLC

Certified Public Accountants

"A Regional Firm With Offices In Michigan And Wisconsin"

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PARTNERS

Daniel E. Bianchi, CPA

Michael A. Grentz, CPA

William C. Sheltrou, CPA

Portage Health Foundation
Communication with Those Charged with Governance
For the Year Ended December 31, 2017

June 20, 2018

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 for the year ended December 31, 2017, and have issued our report thereon dated June 20, 2018. 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 December 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 year's depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Board of Directors of the
Portage Health Foundation

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 20, 2018.

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

PORTAGE HEALTH FOUNDATION

AUDITED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 20, 2018

PORTAGE HEALTH FOUNDATION
STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 458,311	\$ 152,887
Pledges receivable	185,200	236,400
Prepaid expenses	4,758	4,182
Investments, at fair value	57,828,909	50,280,467
Investments, at fair value, held by KC Foundation	-	21,036
Equity investment	7,716,068	8,885,554
Property and equipment, net	44,365	56,048
TOTAL ASSETS	\$66,237,611	\$ 59,636,574
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 14,176	\$ 12,722
Payroll liabilities	4,299	11,359
Grants payable	1,295,113	1,836,350
TOTAL LIABILITIES	1,313,588	1,860,431
 NET ASSETS		
Unrestricted net assets	64,619,944	57,427,457
Temporarily restricted net assets	304,079	348,686
TOTAL NET ASSETS	64,924,023	57,776,143
TOTAL LIABILITIES AND NET ASSETS	\$66,237,611	\$ 59,636,574

See accompanying notes and independent auditor's report.

PORTAGE HEALTH FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and other support:		
Contributions	\$ 62,304	\$ 9,829
Fundraising	41,235	37,222
Interest and dividends	1,165,520	1,095,746
Grant refund	-	640
Other income (loss)	-	1,010
Unrealized gain (loss) on investment securities	6,790,738	2,785,978
Realized gain (loss) on investment securities	844,982	(265,650)
Total revenues and other support	<u>8,904,779</u>	<u>3,664,775</u>
Expenses:		
Program expenses	390,407	640,432
Management and general expenses	520,190	484,274
Fundraising expenses	40,101	22,051
Total expenses	<u>950,698</u>	<u>1,146,757</u>
Net assets released from restriction:		
Satisfaction of continuing education	2,897	9,786
Satisfaction of access to care	2,000	-
Satisfaction of drug prevention education and enforcement	137,710	134,021
Satisfaction of prescription for health	10,000	-
Total net assets released from restriction	<u>152,607</u>	<u>143,807</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>8,106,688</u>	<u>2,661,825</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	108,000	479,810
Net assets released from restrictions	<u>(152,607)</u>	<u>(143,807)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(44,607)</u>	<u>336,003</u>
OTHER INCOME/(EXPENSE)		
Portage Equity Joint Venture gain/(loss)	<u>(914,201)</u>	<u>(325,078)</u>
TOTAL OTHER INCOME/(EXPENSE)	<u>(914,201)</u>	<u>(325,078)</u>
INCREASE IN NET ASSETS	7,147,880	2,672,750
Net assets at beginning of year	<u>57,776,143</u>	<u>55,103,393</u>
NET ASSETS AT END OF YEAR	<u>\$ 64,924,023</u>	<u>\$ 57,776,143</u>

See accompanying notes and independent auditor's report.

PORTAGE HEALTH FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
PROGRAM EXPENSES		
Grant Awards	\$ 390,407	\$ 640,432
TOTAL PROGRAM EXPENSES	<u>390,407</u>	<u>640,432</u>
MANAGEMENT AND GENERAL EXPENSES		
Personnel costs	283,105	297,102
Advertising and promotion	33,616	24,511
Professional fees	94,210	60,931
Office expenses	11,196	14,893
Donations	21,731	-
Dues and subscriptions	2,736	6,127
Education/staff and board development	16,067	31,231
IT maintenance/management	2,926	4,537
Rent expense	11,610	11,490
Liability insurance	7,681	7,954
Travel/relationship development	6,875	1,731
Meetings/luncheons	7,484	8,952
Computer hardware/software	5,612	95
Depreciation	11,683	11,683
Investment account fees	102	397
Miscellaneous	3,556	2,640
TOTAL MANAGEMENT AND GENERAL EXPENSES	<u>520,190</u>	<u>484,274</u>
FUNDRAISING EXPENSES		
Annual ball expenses	19,600	20,077
Event coordination	20,501	1,974
TOTAL FUNDRAISING EXPENSES	<u>40,101</u>	<u>22,051</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 950,698</u>	<u>\$ 1,146,757</u>

See accompanying notes and independent auditor's report.

PORTAGE HEALTH FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,147,880	\$ 2,672,750
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	11,683	11,683
(Increase) Decrease in prepaid expenses	(576)	5,811
(Increase) Decrease in pledges receivable	51,200	(236,400)
Increase (Decrease) in accounts payable	1,454	12,173
Increase (Decrease) in grants payable	(541,237)	(513,650)
Increase (Decrease) in accrued payroll liabilities	(7,060)	289
Interest and dividends on investment accounts, net of fees	(1,165,520)	(1,095,745)
Net unrealized and realized gains on investment accounts	<u>(7,635,617)</u>	<u>(2,519,930)</u>
Total Adjustments	<u>(9,285,673)</u>	<u>(4,335,769)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 (2,137,793)	 (1,663,019)
 CASH FLOWS USED BY INVESTING ACTIVITIES		
Return on sale of joint venture equity investments	255,285	-
Investment returns withdrawn for current operations	1,252,000	500,000
Transfer investment account to Keweenaw Community Foundation	21,731	-
(Gain) Loss on joint venture equity investments	914,201	325,078
Office equipment and furniture purchases	<u>-</u>	<u>(7,684)</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 2,443,217	 817,394
 NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	 <u>305,424</u>	 <u>(845,625)</u>
 Cash and cash equivalents, beginning of year	 <u>152,887</u>	 <u>998,512</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 458,311</u>	 <u>\$ 152,887</u>
 NON CASH INVESTING ACTIVITIES		
Gain (Loss) on joint venture equity investments	\$ (914,201)	\$ (325,078)
Transfer control of assets held in Keweenaw Community Foundation	\$ 21,731	\$ -

See accompanying notes and independent auditor's report.

PORTAGE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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:	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 348,686	\$ 12,683
Amount released from restriction	(152,607)	(143,807)
Additional restricted donation	<u>108,000</u>	<u>479,810</u>
Ending balance of temporarily restricted net assets	<u>\$ 304,079</u>	<u>\$ 348,686</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, 2017

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, 2017 and December 31, 2016 were \$11,683.

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, 2017

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. The payment schedule for grants payable is as follows:

2018	\$ 545,113
2019	<u>750,000</u>
	<u>\$ 1,295,113</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 2014.

Foreign Taxes

Foreign taxes paid within investment accounts during the years ended December 31, 2017 and 2016 were \$9,915 and \$11,177, 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, 2017 and December 31, 2016 were \$33,614 and \$24,511, 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, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent events have been evaluated through June 20, 2018, 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, 2017 are \$458,311 and \$522,296, of which amounts over \$250,000 are not insured.

NOTE D - PLEDGES RECEIVABLE

The Foundation partnered with Blue Cross Blue Shield in 2017 to initiate the Adolescent Mental and Behavioral Health program. The Foundation initiated the UPSET West program in 2016. There are unconditional promises to give in support of both programs. 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 consist of the following as of December 31, 2017:

	<u>< 1 Year</u>	<u>1-5 Years</u>	<u>> 5 Years</u>
UPSET West	\$ 113,200	\$ 22,000	\$ -
Blue Cross Blue Shield	50,000	-	-

NOTE E - INVESTMENT SECURITIES

The cost, market value, and unrealized appreciation (depreciation) of investment securities at December 31, 2017 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds	\$ 6,693	\$ 6,693	\$ -
Mutual funds	50,409,135	56,251,109	5,841,974
Exchange traded funds	1,433,318	1,571,107	137,789
TOTAL	<u>\$ 51,849,146</u>	<u>\$ 57,828,909</u>	<u>\$ 5,979,763</u>

PORTAGE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE E - INVESTMENT SECURITIES (CONTINUED)

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)
TOTAL	\$ 51,121,662	\$ 50,280,467	\$ (841,195)

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 at December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 6,693	\$ -	\$ 6,693	\$ -
Mutual funds - bonds	14,899,111	14,899,111	-	-
Mutual funds - stocks	41,351,998	41,351,998	-	-
Exchange traded funds	1,571,107	1,571,107	-	-
TOTAL INVESTMENTS	\$ 57,828,909	\$ 57,822,216	\$ 6,693	\$ -

	Fair Value at December 31, 2016			
	Fair Value	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	-	-
TOTAL INVESTMENTS	\$ 50,280,467	\$ 50,278,633	\$ 1,834	\$ -

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, 2017

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>2017</u>	<u>2016</u>
Assets		
Current assets	\$ 19,564,348	\$ 25,273,548
Noncurrent assets	46,762,969	44,021,126
Total assets	<u>\$ 66,327,317</u>	<u>\$ 69,294,674</u>
Liabilities and Equity		
Current liabilities	\$ 4,589,546	\$ 5,555,938
Noncurrent liabilities	23,157,431	19,310,964
Equity	38,580,340	44,427,772
Total liabilities and equity	<u>\$ 66,327,317</u>	<u>\$ 69,294,674</u>
<u>Summary of Consolidated Income Statements</u>		
Revenue	\$ 64,161,445	\$ 73,910,013
EBITDA	\$ (475,147)	\$ 3,051,365
Net income (loss)	\$ (4,570,982)	\$ (1,625,396)
Foundation's Equity (20% of above Equity)	\$ 7,716,068	\$ 8,885,554

During 2017, the Foundation received \$255,285 from the sale of the Portage Home Health and Portage Hospice by the joint venture. This was recorded as a return of capital.

During 2017, the Foundation notified the joint venture that it intends to exercise its put option to sell its interest in the joint venture. There are several steps to this process, including having an audit of the joint venture, obtaining an appraisal of fair market value of the joint venture, and other conditions of the put agreement that must be satisfied in order to complete the proposed sale.

PORTAGE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE G - PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 74,168	\$ 74,168
Foundation software	-	-
Leasehold improvements	10,695	10,695
	<u>84,863</u>	<u>84,863</u>
Less Accumulated Depreciation	<u>(40,498)</u>	<u>(28,815)</u>
TOTAL	<u>\$ 44,365</u>	<u>\$ 56,048</u>

Depreciation expense for each of the years ending December 31, 2017 and 2016 was \$11,683.

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, 2017 and December 31, 2016, with pension expenses totaling \$17,026 and \$19,429, respectively.

NOTE J - OPERATING LEASE

The Foundation leases office space under an operating agreement that expires in March, 2021. Total rent expense was \$11,610 for the year ended December 31, 2017 and \$11,490 for the year ended December 31, 2016. Future minimum rental commitments under this operating lease approximate \$38,550.

SUPPLEMENTARY INFORMATION



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Certified Public Accountants

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PARTNERS

Daniel E. Bianchi, CPA

Michael A. Grentz, CPA

William C. Shelton, CPA

**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, 2017 and 2016, and our report thereon dated June 20, 2018, 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 20, 2018

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

For the years ended December 31, 2017 and 2016

	2017		2016	
	Actual	Budget	Actual	Budget
RESOURCES				
Revenues				
Unrestricted donor contributions	\$ 62,304	\$ 50,000	\$ 9,829	\$ 9,000
Restricted donor contributions - cash basis	159,200	220,000	123,410	75,000
Grant refund	-	-	640	-
Other income	-	-	1,010	-
Event contributions	41,235	60,000	37,222	50,000
Other Resources				
Investment returns withdrawn for current operations	1,252,000	1,485,435	500,000	1,491,940
TOTAL RESOURCES	<u>1,514,739</u>	<u>1,815,435</u>	<u>672,111</u>	<u>1,625,940</u>
PROGRAM EXPENSES				
Unrestricted grant awards - cash basis	804,833	305,142	921,975	514,500
Restricted grant awards - cash basis	126,811	959,500	121,893	613,500
TOTAL PROGRAM EXPENSES	<u>931,644</u>	<u>1,264,642</u>	<u>1,043,868</u>	<u>1,128,000</u>
MANAGEMENT AND GENERAL EXPENSES				
Personnel Costs				
Salaries & wages	210,668	223,753	225,777	216,950
Health insurance	31,683	38,575	30,106	46,800
401(k) plan	17,026	17,900	19,429	17,001
Life & disability insurance	6,110	5,392	3,194	5,395
Payroll tax expense	17,618	27,600	18,597	25,523
Total Personnel Costs	<u>283,105</u>	<u>313,220</u>	<u>297,103</u>	<u>311,669</u>
Advertising and Promotion				
Promotion/advertising/sponsor	28,378	45,000	15,896	15,000
Graphic design/production	3,608	15,000	4,185	15,000
Web design/maintenance	1,630	1,500	4,430	2,000
Total Advertising and Promotion	<u>33,616</u>	<u>61,500</u>	<u>24,511</u>	<u>32,000</u>
Professional Fees				
Legal fees	54,582	3,000	-	3,000
Accounting	15,828	15,000	19,095	12,000
Investment management fees	20,000	20,000	38,135	20,000
Audit fees	3,800	3,800	3,700	3,600
Total Professional Fees	<u>94,210</u>	<u>41,800</u>	<u>60,930</u>	<u>38,600</u>
Office Expenses				
Postage and mailing services	913	3,600	1,987	3,600
Printing and copying	945	1,500	2,415	-
Office supplies	3,424	6,000	5,809	6,000
Telephone/internet	4,513	4,320	4,293	4,320
Bank service charges	1,401	400	389	100
Total Office Expenses	<u>11,196</u>	<u>15,820</u>	<u>14,893</u>	<u>14,020</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, 2017 and 2016

	2017		2016	
	Actual	Budget	Actual	Budget
Other Expenses				
Donations	21,731	-	-	-
Dues and subscriptions	2,736	12,500	6,127	7,800
Education/staff and board development	16,067	15,000	31,231	13,500
IT maintenance/management	2,926	3,000	4,537	3,000
Rent expense	11,610	11,500	11,490	11,400
Liability insurance	7,681	7,250	7,954	7,500
Travel/relationship development	6,875	5,001	1,731	8,000
Conference/convention	-	2,500	-	-
Meetings/luncheons	7,484	7,200	8,952	5,000
Computer hardware/software	5,612	7,500	95	9,800
Depreciation	11,683	11,600	11,683	10,200
Investment account fees	102	400	397	-
Miscellaneous	3,556	-	2,640	448
Total Other Expenses	<u>98,063</u>	<u>83,451</u>	<u>86,837</u>	<u>76,648</u>
Less Management and General Expenses Reclassified to Restricted Grant Awards	<u>-</u>	<u>-</u>	<u>(9,786)</u>	<u>-</u>
TOTAL MANAGEMENT AND GENERAL EXPENSE	<u>520,190</u>	<u>515,791</u>	<u>474,488</u>	<u>472,937</u>
FUNDRAISING EXPENSES				
Event coordination	40,101	35,000	22,051	25,000
TOTAL FUNDRAISING EXPENSES	<u>40,101</u>	<u>35,000</u>	<u>22,051</u>	<u>25,000</u>
TOTAL EXPENSES	<u>1,491,935</u>	<u>1,815,433</u>	<u>1,540,407</u>	<u>1,625,937</u>
NET OPERATING RESOURCES/(EXPENSES)	<u>\$ 22,804</u>	<u>\$ 2</u>	<u>\$ (868,296)</u>	<u>\$ 3</u>

See independent auditor's report on supplementary information.

PORTAGE HEALTH FOUNDATION
SCHEDULE OF GRANT AWARDS - CASH BASIS
For the year ended December 31, 2017

GRANT AWARDS

Giving Tuesday	
Little Brothers Friends of the Elderly	\$ 47,093
Omega House	13,030
UP Kids	11,500
Keweenaw Family Resource Center	9,900
Simple Kindness for Youth	7,810
Dial Help	5,000
Ontonagon County Cancer Association	4,193
Barbara Kettle Gundlach Shelter Home	3,190
Baraga County Shelter Home	1,910
Senior Meals	1,080
Phoenix House	140
Total Giving Tuesday	<u>104,846</u>
Crave 21	
Superior Graphics	9,550
Dial Help	5,807
Downwind Sports	1,520
Total Crave 21	<u>16,877</u>
Michigan Tech University	500,000
City of Houghton (UPSET West)	103,230
CCISD	50,000
Keweenaw Community Foundation	31,343
Evangel Baptist Church (Let's Eat)	17,720
Keweenaw County Sheriff (UPSET WEST)	11,581
Upper Great Lakes (Prescription for Health)	10,881
Phoenix House (Crisis Residential Services)	10,020
Finlandia University	10,000
Gogebic Community College	10,000
Michigan State University	10,000
Michigan Tech Fund	10,000
NMU Foundation	10,000
Upper Great Lakes (Substance Use Treatment Expansion)	8,000
Scholarships (10 at \$500 each)	5,000
Ontonagon Area Schools (Farm to Harvest)	4,391
Portage Lake District Library	3,555
Holiday Gas Cards (Access to Care)	2,000
Ontonagon Cancer Association	1,500
Girl Scouts	500
R. Decker Nursing Excellence Award (Janelle Johnson)	200
TOTAL GRANT AWARDS	<u>\$ 931,644</u>

See independent auditor's report on supplementary information.

PORTAGE HEALTH FOUNDATION
SCHEDULE OF GRANT AWARDS PAYABLE
For the year ended December 31, 2017

	<u>MTU</u>	<u>CCISD</u>	<u>Other</u>	<u>TOTAL</u>
GRANTS PAYABLE AT BEGINNING OF YEAR	\$ 1,750,000	\$ 50,000	\$ 36,350	\$ 1,836,350
Pledged Awards	-	-	45,113	45,113
Payments	(500,000)	(50,000)	(36,350)	(586,350)
GRANTS PAYABLE AT END OF PERIOD	<u>\$ 1,250,000</u>	<u>\$ -</u>	<u>\$ 45,113</u>	<u>\$ 1,295,113</u>
Payment Schedule				
2018	500,000		45,113	545,113
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, 2017

	Ruppe Foundation	CPSET West	BCBS	Other	TOTAL
TEMPORARILY RESTRICTED NET ASSETS AT BEGINNING OF YEAR	\$ 2,897	\$ 345,789	\$ -	\$ -	\$ 348,686
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS					
Contributions	8,000	500	-	14,000	22,500
New pledges promised in 2017:					
2017	-	26,500	50,000	-	76,500
2018	-	7,000	-	-	7,000
2019	-	2,000	-	-	2,000
2020	-	-	-	-	-
Net assets released from restriction					
Satisfaction of continuing education	(2,897)				(2,897)
Satisfaction of drug enforcement		(137,710)			(137,710)
Satisfaction of access to care (gas cards)				(2,000)	(2,000)
Satisfaction of prescription for health				(10,000)	(10,000)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	5,103	(101,710)	50,000	2,000	(44,607)
TEMPORARILY RESTRICTED NET ASSETS AT END OF PERIOD	\$ 8,000	\$ 244,079	\$ 50,000	\$ 2,000	\$ 304,079

See independent auditor's report on supplementary information.