

# **Michigan League for Public Policy and Subsidiary**

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**Consolidated Financial Report  
with Additional Information  
December 31, 2015**

# **Michigan League for Public Policy and Subsidiary**

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## Independent Auditor's Report

To the Board of Directors  
Michigan League for Public Policy and Subsidiary

We have audited the accompanying consolidated financial statements of Michigan League for Public Policy and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2015 and 2014 and the related consolidated statements of activities, changes in net assets, and cash flows for the year ended December 31, 2015 and the 18-month period ended December 31, 2014, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Michigan League for Public Policy and Subsidiary as of December 31, 2015 and 2014 and the changes in net assets and cash flows for the year ended December 31, 2015 and the 18-month period ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Michigan League for Public Policy and Subsidiary

***Emphasis of Matter***

As discussed in Note 3 to the consolidated financial statements, the consolidated financial statements include investments valued at \$2,312,687 (85 percent of net assets) as of December 31, 2015 and \$2,382,938 (65 percent of net assets) as of December 31, 2014, whose fair value has been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the community foundations. Our opinion is not modified with respect to this matter.

*Plante & Morse, PLLC*

May 16, 2016

# Michigan League for Public Policy and Subsidiary

## Consolidated Balance Sheet

	December 31, 2015	December 31, 2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 416,918	\$ 1,306,926
Receivables:		
Grants	417,500	570,000
Other	232,809	64,059
Prepaid expenses and other current assets	23,849	41,020
Total current assets	1,091,076	1,982,005
<b>Investments</b> (Note 3)	19,436	11,765
<b>Furniture and Equipment - Net</b> (Note 2)	40,137	50,561
<b>Funds Held at Community Foundations</b> (Note 3)	2,312,687	2,382,938
<b>Investment in Life Insurance Contracts</b>	364,494	418,857
Total assets	<u>\$ 3,827,830</u>	<u>\$ 4,846,126</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 53,967	\$ 40,791
Deferred revenue	-	67,123
Accrued liabilities and other	82,026	159,209
Total current liabilities	135,993	267,123
<b>Pension and Postretirement Obligations</b> (Note 5)	963,701	955,463
Total liabilities	1,099,694	1,222,586
<b>Net Assets</b>		
Unrestricted	(61,151)	18,548
Temporarily restricted (Note 7)	511,549	1,337,754
Permanently restricted (Note 8)	2,277,738	2,267,238
Total net assets	2,728,136	3,623,540
Total liabilities and net assets	<u>\$ 3,827,830</u>	<u>\$ 4,846,126</u>

# Michigan League for Public Policy and Subsidiary

## Consolidated Statement of Activities and Changes in Net Assets

	Year Ended December 31, 2015				18-Month Period Ended December 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>								
Contributions	\$ 138,169	\$ -	\$ 10,500	\$ 148,669	\$ 166,425	\$ 11,385	\$ 1,099,614	\$ 1,277,424
Grants	484,990	564,000	-	1,048,990	240,156	2,619,875	-	2,860,031
Fee for services	950,883	-	-	950,883	844,853	-	-	844,853
Net realized and unrealized gains and losses on investments	(28,194)	-	-	(28,194)	51,953	-	-	51,953
Interest income	162	834	-	996	1,276	-	-	1,276
Net realized and unrealized gains on funds held at community foundations	(18,876)	(40,751)	-	(59,627)	-	235,852	-	235,852
<b>Total revenue and support</b>	<b>1,527,134</b>	<b>524,083</b>	<b>10,500</b>	<b>2,061,717</b>	<b>1,304,663</b>	<b>2,867,112</b>	<b>1,099,614</b>	<b>5,271,389</b>
<b>Net Assets Released from Restrictions</b>	<b>1,350,288</b>	<b>(1,350,288)</b>	<b>-</b>	<b>-</b>	<b>3,009,356</b>	<b>(3,009,356)</b>	<b>-</b>	<b>-</b>
<b>Total revenue, support, and net assets released from restrictions</b>	<b>2,877,422</b>	<b>(826,205)</b>	<b>10,500</b>	<b>2,061,717</b>	<b>4,314,019</b>	<b>(142,244)</b>	<b>1,099,614</b>	<b>5,271,389</b>
<b>Expenses</b>								
Program services:								
Public policy	2,612,137	-	-	2,612,137	3,423,075	-	-	3,423,075
Insurance project	61,610	-	-	61,610	115,615	-	-	115,615
<b>Total program services</b>	<b>2,673,747</b>	<b>-</b>	<b>-</b>	<b>2,673,747</b>	<b>3,538,690</b>	<b>-</b>	<b>-</b>	<b>3,538,690</b>
Support services:								
Management and general	237,216	-	-	237,216	508,135	-	-	508,135
Fundraising	46,158	-	-	46,158	204,030	-	-	204,030
<b>Total expenses</b>	<b>2,957,121</b>	<b>-</b>	<b>-</b>	<b>2,957,121</b>	<b>4,250,855</b>	<b>-</b>	<b>-</b>	<b>4,250,855</b>
<b>(Decrease) Increase in Net Assets</b>	<b>(79,699)</b>	<b>(826,205)</b>	<b>10,500</b>	<b>(895,404)</b>	<b>63,164</b>	<b>(142,244)</b>	<b>1,099,614</b>	<b>1,020,534</b>
<b>Net Assets (Deficit) - Beginning of period</b>	<b>18,548</b>	<b>1,337,754</b>	<b>2,267,238</b>	<b>3,623,540</b>	<b>(44,616)</b>	<b>1,479,998</b>	<b>1,167,624</b>	<b>2,603,006</b>
<b>Net (Deficit) Assets - End of period</b>	<b>\$ (61,151)</b>	<b>\$ 511,549</b>	<b>\$ 2,277,738</b>	<b>\$ 2,728,136</b>	<b>\$ 18,548</b>	<b>\$ 1,337,754</b>	<b>\$ 2,267,238</b>	<b>\$ 3,623,540</b>

# Michigan League for Public Policy and Subsidiary

## Consolidated Statement of Cash Flows

	Year Ended December 31, 2015	18-month Period Ended December 31, 2014
	<u>                    </u>	<u>                    </u>
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (895,404)	\$ 1,020,534
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	11,722	15,950
Bad debts	92,500	49,900
Realized and unrealized loss (gain) on investments	28,194	(51,953)
Realized and unrealized loss (gain) on funds held at community foundations	59,627	(235,852)
Changes in operating assets and liabilities which provided (used) cash:		
Grants receivable	152,500	-
Other receivables	(261,250)	(60,581)
Prepaid expenses and other current assets	17,171	(30,150)
Accounts payable	13,176	14,019
Deferred revenue	(67,123)	17,802
Accrued liabilities and other	(77,183)	18,239
Pension and postretirement obligations	8,238	67,123
	<u>                    </u>	<u>                    </u>
Net cash (used in) provided by operating activities	(917,832)	825,031
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	19,333	239,647
Purchase of investments	(834)	(88,610)
Net activity for funds held at community foundations	10,624	(1,124,256)
Purchase of furniture and equipment	(1,299)	(32,029)
	<u>                    </u>	<u>                    </u>
Net cash provided by (used in) investing activities	27,824	(1,005,248)
<b>Net Decrease in Cash and Cash Equivalents</b>	(890,008)	(180,217)
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>1,306,926</u>	<u>1,487,143</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 416,918</u></u>	<u><u>\$ 1,306,926</u></u>

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 1 - Nature of Business and Significant Accounting Policies

**Organization** - The consolidated financial statements of Michigan League for Public Policy and Subsidiary (the "Organization") include the accounts of Michigan League for Public Policy (the "League") and its wholly owned for-profit subsidiary, Michigan League Insurance Project for Nonprofits, Inc. (the "Insurance Project").

Michigan League for Public Policy is a not-for-profit organization established to foster economic opportunity, independence, and security of Michigan's economically vulnerable population by shaping public policy through objective data-driven research, education, and advocacy. Michigan League Insurance Project for Nonprofits, Inc. is a for-profit organization established to provide health and liability insurance contracts to not-for-profit organizations in Michigan.

During the 18 months ended December 31, 2014, the League and the Insurance Project changed their year ends from June 30 to December 31.

The Organization serves as the fiduciary to Michigan Consumers for Healthcare, Inc. (MCH, Inc.), a separate entity. The Organization does not control MCH, Inc., but does have an economic interest in the entity if dissolved. The Organization provides certain services for MCH, Inc. that are reimbursed as expenses are incurred. During the year ended December 31, 2015 and the 18-month period ended December 31, 2014, MCH, Inc. reimbursed the Organization for approximately \$477,000 and \$217,000, respectively, in payroll and other operational costs processed by the Organization on behalf of MCH, Inc.

**Basis of Presentation** - The consolidated financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains deposit balances at banks. At times, these deposits may exceed the federally insured limit. The Organization believes it is not practical to insure all deposits.

**Investments** - Investments in debt and equity securities are recorded at fair value based on quoted market prices. Investments in life insurance contracts are recorded at cash surrender value.

**Furniture and Equipment** - Furniture and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives of 5 to 10 years. Costs of maintenance and repairs are charged to expense when incurred.



# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

The Organization reports gifts of furniture and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of furniture and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the furniture and equipment must be maintained, the Organization reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property, plant, and equipment.

**Classification of Net Assets** - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

**Grants Receivable** - The Organization's grants receivable are comprised primarily of contributed grants and allocations committed from various funding agencies for use in the Organization's activities. Grants receivable at December 31, 2015 are expected to be collected within one year. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

**Contributions and Grants** - Contributions of cash and other assets and grants received from foundations and other organizations, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

**Fee for Services Revenue** - Fee for services revenue is recognized as services are provided. Funds received in excess of the amount earned are recorded as deferred revenue. Included in fee for services are commissions earned on insurance policies of approximately \$129,000 and \$208,000 collected as part of the Insurance Project for the year ended December 31, 2015 and the 18-month period ended December 31, 2014, respectively.

# Michigan League for Public Policy and Subsidiary

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## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Functional Allocation of Expenses** - The costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**Federal Income Taxes** - The League is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). The Insurance Project is organized as a C corporation pursuant to the provisions of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2015 and the 18-month period ended December 31, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2012.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Upcoming Accounting Change** - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects of the new standard on the consolidated financial statements, if any.

**Upcoming Accounting Change** - In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization's consolidated financial statements as a result of the leases for office space classified as operating leases. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined.

**Reclassification** - Certain reclassifications to investments to separately present investments held in life insurance contracts were made to amounts in the 2014 consolidated financial statements to conform to the classifications used in 2015.

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including May 16, 2016, which is the date the consolidated financial statements were available to be issued.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 2 - Furniture and Equipment

The cost of furniture and equipment is summarized as follows:

	2015	2014	Depreciable Life - Years
Office equipment	\$ 31,406	\$ 31,406	3-5
Furniture and fixtures	36,388	36,388	3-5
Computer equipment and software	8,833	7,535	3-5
Total cost	76,627	75,329	
Accumulated depreciation	36,490	24,768	
Net furniture and equipment	\$ 40,137	\$ 50,561	

Depreciation expense was \$11,722 and \$15,950 for the year ended December 31, 2015 and the 18-month period ended December 31, 2014, respectively.

### Note 3 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the consolidated financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2015 and 2014 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 3 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
<b>Assets - Investments</b>				
Domestic equities	\$ 19,436	\$ -	\$ -	\$ 19,436
Funds held at community foundations:				
Kalamazoo Community Foundation	-	-	1,835,246	1,835,246
Community Foundation for Southeast Michigan	-	-	477,441	477,441
<b>Total assets</b>	<b>\$ 19,436</b>	<b>\$ -</b>	<b>\$ 2,312,687</b>	<b>\$ 2,332,123</b>

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
<b>Assets - Investments</b>				
Domestic equities	\$ 11,765	\$ -	\$ -	\$ 11,765
Funds held at community foundations:				
Kalamazoo Community Foundation	-	-	1,878,538	1,878,538
Community Foundation for Southeast Michigan	-	-	504,400	504,400
<b>Total assets</b>	<b>\$ 11,765</b>	<b>\$ -</b>	<b>\$ 2,382,938</b>	<b>\$ 2,394,703</b>

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 3 - Fair Value Measurements (Continued)

The following tables summarize the valuation methods and inputs used to determine fair value at December 31, 2015 and December 31, 2014 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Funds held at community foundations	\$ 2,312,687	Fair value	Market value of share of foundation investments	N/A
	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Funds held at community foundations	\$ 2,382,938	Fair value	Market value of share of foundation investments	N/A

The Organization has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include calls with the community foundations and analyzing quarterly statements. The Organization cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market.

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2015 and the 18 months ended December 31, 2014 are as follows:

	Funds Held at Community Foundations
Balance at December 31, 2014	\$ 2,382,938
Withdrawals	(10,624)
Change in value	(59,627)
Balance at December 31, 2015	<u>\$ 2,312,687</u>

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 3 - Fair Value Measurements (Continued)

	Funds Held at Community Foundations
Balance at June 30, 2013	\$ 1,022,830
Purchases	1,284,369
Withdrawals	(160,113)
Change in value	<u>235,852</u>
Balance at December 31, 2014	<u>\$ 2,382,938</u>

Unrealized (losses) gains of \$(59,627) and \$235,852 for the year ended December 31, 2015 and the 18 months ended December 31, 2014 are reported in net realized and unrealized gains on funds held at community foundations in the consolidated statement of activities. There were no realized gains or losses during 2015 or the 18 months ended December 31, 2014.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The Organization's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer as of the end of the reporting period. There were no transfers between level classification during the year ended December 31, 2015 and the 18-month period ended December 31, 2014.

### Note 4 - Community Foundation Endowment Fund

The Organization has established permanent endowment funds held by the Kalamazoo Community Foundation (KCF) and the Community Foundation for Southeastern Michigan (CFSM). The recorded amount of approximately \$1.8 million and \$500,000 at December 31, 2015 at KCF and CFSM, respectively, and \$1.9 million and \$500,000 at December 31, 2014 at KCF and CFSM, respectively, represents the present value of the estimated future income stream from the underlying endowment assets. The investments are recorded at market value. The purpose of the endowment funds is to provide unrestricted operating support for the Organization from endowment earnings.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 5 - Pension and Other Postretirement Benefit Plans

All employees of the League hired before January 1, 2008 with one year of service are covered under a noncontributory defined benefit pension and retiree healthcare plan.

#### Defined Benefit Pension Plan

Benefits provided to employees are based on one year of service achieved before January 1, 2008 and average compensation calculated using the highest average annual earnings within the last three years of employment prior to termination. Benefits vest after three years of service. As of December 31, 2015 and 2014, all participating employees have vested. The plan was frozen to new employees effective December 31, 2007. As of the freeze date, participants ceased to accrue additional benefits.

#### Defined Benefit Retiree Health Plan

Benefits cover the full cost of health insurance for three retirees based on retirement at the age of 65 and before May 2014. Effective May 2014, \$5,000 per year for 10 years of health benefits are provided if an employee has cumulatively worked for the League for 20 years, remained in good standing, and attained the age of 55 upon leaving.

#### Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Projected benefit obligation	\$ 1,087,147	\$ 1,057,993	\$ 465,791	\$ 457,660
Fair value of plan assets at beginning of year	589,237	560,190	-	-
Funded status at end of year	<u>\$ (497,910)</u>	<u>\$ (497,803)</u>	<u>\$ (465,791)</u>	<u>\$ (457,660)</u>

The accumulated benefit obligation for the pension plan was \$1,087,147 and \$1,057,993 at December 31, 2015 and 2014, respectively.

#### Net Periodic Benefit Cost, Contributions, Benefits Paid, and Other Changes

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Net periodic benefit cost	\$ 34,907	\$ 102,908	\$ 41,240	\$ 36,886
Contributions	34,800	89,000	33,109	32,992
Net investment gain	7,660	69,738	-	-
Benefits paid	13,413	16,683	33,109	32,992



# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 5 - Pension and Other Postretirement Benefit Plans (Continued)

#### Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	3.30 %	3.00 %	3.43 %	3.66 %

Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31, 2015 and the 18 months ended December 31, 2014 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	3.00 %	3.75 %	3.41 %	3.66 %
Expected long-term return on plan assets	6.00	7.00	0.00	0.00

The overall expected rate of return on plan assets represents a weighted-average composite rate based on the historical rates of returns of the respective asset classes.

#### Assumed Healthcare Cost Trend Rates at December 31

Healthcare cost trend rate assumed for next year 5%

#### Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Organization, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits.

Equity securities include investments in large-cap and mid-cap companies primarily located in the United States.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 5 - Pension and Other Postretirement Benefit Plans (Continued)

The fair values of the Organization's pension plan assets at December 31, 2015 and 2014 by major asset classes are as follows:

#### Fair Value Measurements at December 31, 2015

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset Classes</b>				
Domestic equity securities	\$ 393,152	\$ 393,152	\$ -	\$ -
Fixed-income securities	196,085	196,085	-	-
Total	<u>\$ 589,237</u>	<u>\$ 589,237</u>	<u>\$ -</u>	<u>\$ -</u>

#### Fair Value Measurements at December 31, 2014

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset Classes</b>				
Money market mutual funds	\$ 376,212	\$ 376,212	\$ -	\$ -
Domestic equity securities	183,978	183,978	-	-
Total	<u>\$ 560,190</u>	<u>\$ 560,190</u>	<u>\$ -</u>	<u>\$ -</u>

The above tables present information about the pension plan assets measured at fair value at December 31, 2015 and 2014. Fair value definitions of the level classifications are described in Note 3.

#### Other Postretirement Plan Assets

The other postretirement plan is funded to the extent of benefit payments required by the Organization and does not have any plan assets at December 31, 2015 or 2014.

#### Cash Flow

#### Contributions

The Organization expects to contribute \$36,000 to its pension plan in 2016. The Organization expects to make contributions to the other postretirement benefit plan to pay current retiree benefits in 2016.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 5 - Pension and Other Postretirement Benefit Plans (Continued)

#### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Postretirement Benefits
2016	\$ 316,000	\$ 38,609
2017	204,000	38,852
2018	-	39,027
2019	34,000	39,184
2020	160,000	39,108
2021-2025	374,000	194,073

### Note 6 - Retirement Plan

The Organization participates in a defined contribution retirement plan for the benefit of substantially all full-time professional and support staff. The Organization contributes a percentage of participating employees' salaries. Total organization contributions charged to retirement costs during 2015 and the 18-month period ended December 31, 2014 were \$43,107 and \$54,785, respectively.

### Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 and 2014 are restricted for the following:

	2015	2014
Program grant contracts	\$ 39,064	\$ 57,019
Michigan Consumers for Healthcare grants	-	615,833
Accumulation of endowment earnings	54,985	94,902
Time restrictions	417,500	570,000
Total temporarily restricted net assets	\$ 511,549	\$ 1,337,754

### Note 8 - Donor-restricted and Board-designated Endowments

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 8 - Donor-restricted and Board-designated Endowments (Continued)

#### Interpretation of Relevant Law

The board of trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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

#### Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (21,935)	\$ 54,985	\$ 2,277,738	\$ 2,310,788

#### Changes in Endowment Net Assets for Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ (5,600)	\$ 94,902	\$ 2,267,238	\$ 2,356,540
Investment return -				
Net depreciation (realized and unrealized)	(16,335)	(39,917)	-	(56,252)
Contributions	-	-	10,500	10,500
Endowment net assets -				
End of year	\$ (21,935)	\$ 54,985	\$ 2,277,738	\$ 2,310,788

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 8 - Donor-restricted and Board-designated Endowments (Continued)

#### Endowment Net Asset Composition by Type of Fund as of December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (5,600)	\$ 94,902	\$ 2,267,238	\$ 2,356,540

#### Changes in Endowment Net Assets for the 18-months Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ -	\$ 20,995	\$ 1,167,624	\$ 1,188,619
Investment return - Net (depreciation) appreciation (realized and unrealized)	(5,600)	235,852	-	230,252
Total investment return	(5,600)	235,852	-	230,252
Contributions	-	-	1,099,614	1,099,614
Appropriation of endowment assets for expenditure	-	(161,945)	-	(161,945)
Endowment net assets - End of year	\$ (5,600)	\$ 94,902	\$ 2,267,238	\$ 2,356,540

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$21,935 and \$5,600 as of December 31, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

# Michigan League for Public Policy and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 8 - Donor-restricted and Board-designated Endowments (Continued)

#### Return Objectives and Risk Parameters

The Organization has investment and spending policies for endowment assets. All of the Organization's endowments allow for unrestricted use of the earnings. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. The endowment assets are invested at two community foundations in a manner that is expected, over time, to provide an average rate of return of approximately 9 percent 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 Organization relies on the community foundations' total return strategy, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization is in the process of developing a new spending policy for the endowments held at the community foundations as the earnings can be used for unrestricted purposes. The current process allows for the Organization to withdraw up to approximately 5 percent of earnings each year.

### Note 9 - Operating Leases

The Organization leases office space and certain equipment and vehicles under operating lease agreements that expire through May 31, 2020. The following is a schedule of future minimum rental payments for the years ending December 31:

2016	\$	79,226
2017		77,822
2018		62,753
2019		64,008
Thereafter		<u>26,890</u>
Total	\$	<u>310,699</u>

Total rent expense on these leases for 2015 and 2014 was \$85,046 and \$99,426, respectively.

## **Additional Information**

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Independent Auditor's Report on Additional Information

To the Board of Directors  
Michigan League for Public Policy and Subsidiary

We have audited the consolidated financial statements of Michigan League for Public Policy and Subsidiary as of and for the year ended December 31, 2015 and the 18-month period ended December 31, 2014 and have issued our report thereon dated May 16, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*Plante & Moran, PLLC*

May 16, 2016



# Michigan League for Public Policy and Subsidiary

## Consolidating Balance Sheet December 31, 2015

	Michigan League For Public Policy (MLPP)	MCH (Department of MLPP)	Michigan League Insurance Project for Nonprofits, Inc.	Eliminating Entries	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 345,363	\$ 31,743	\$ 39,812	\$ -	\$ 416,918
Receivables:					
Grants	287,500	130,000	-	-	417,500
Other	171,580	146,475	15,099	(100,345)	232,809
Prepaid expenses and other current assets	23,849	-	-	-	23,849
Total current assets	828,292	308,218	54,911	(100,345)	1,091,076
<b>Investments</b>	19,436	-	-	-	19,436
<b>Furniture and Equipment - Net</b>	24,939	14,565	633	-	40,137
<b>Funds Held at Community Foundations</b>	2,312,687	-	-	-	2,312,687
<b>Investment in Subsidiary</b>	5,000	-	-	(5,000)	-
<b>Investment in Life Insurance Contracts</b>	364,494	-	-	-	364,494
Total assets	<u>\$ 3,554,848</u>	<u>\$ 322,783</u>	<u>\$ 55,544</u>	<u>\$ (105,345)</u>	<u>\$ 3,827,830</u>

# Michigan League for Public Policy and Subsidiary

## Consolidating Balance Sheet (Continued) December 31, 2015

	Michigan League For Public Policy (MLPP)	MCH (Department of MLPP)	Michigan League Insurance Project for Nonprofits, Inc.	Eliminating Entries	Total
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 16,219	\$ 37,748	\$ -	\$ -	\$ 53,967
Accrued liabilities and other	82,026	100,345	-	(100,345)	82,026
Total current liabilities	98,245	138,093	-	(100,345)	135,993
<b>Pension and Postretirement Obligations</b>	963,701	-	-	-	963,701
<b>Net Assets</b>					
Unrestricted	(191,385)	79,690	55,544	(5,000)	(61,151)
Temporarily restricted	406,549	105,000	-	-	511,549
Permanently restricted	2,277,738	-	-	-	2,277,738
Total net assets	2,492,902	184,690	55,544	(5,000)	2,728,136
Total liabilities and net assets	<b>\$ 3,554,848</b>	<b>\$ 322,783</b>	<b>\$ 55,544</b>	<b>\$ (105,345)</b>	<b>\$ 3,827,830</b>

# Michigan League for Public Policy and Subsidiary

## Consolidating Statement of Activities and Changes in Net Assets Year Ended December 31, 2015

	Michigan League For Public Policy (MLPP)	MCH (Department of MLPP)	Michigan League Insurance Project for Nonprofits, Inc.	Eliminations	Totals
<b>Unrestricted Revenue and Gains</b>					
Contributions - Unrestricted	\$ 138,169	\$ -	\$ -	\$ -	\$ 138,169
Grants - Unrestricted	484,240	750	-	-	484,990
Fee for services	356,804	510,984	128,732	(45,637)	950,883
Net realized and unrealized loss - Unrestricted	(47,070)	-	-	-	(47,070)
Interest income - Unrestricted	151	-	11	-	162
Total unrestricted revenue and gains	932,294	511,734	128,743	(45,637)	1,527,134
<b>Net Assets Released from Restrictions - Addition to unrestricted net assets</b>	586,955	763,333	-	-	1,350,288
<b>Unrestricted Expenses and Losses</b>					
Program:					
Salaries and wages	890,470	531,547	-	-	1,422,017
Employee pension	77,215	10,189	-	-	87,404
Payroll taxes	69,372	42,278	-	-	111,650
Employee insurances	187,635	70,843	-	-	258,478
Supplies	5,011	2,030	-	-	7,041
Meals	658	-	-	-	658
Telephone	8,003	7,196	-	-	15,199
Contract and professional fees	235,272	399,474	-	-	634,746
Insurance	4,566	3,491	-	-	8,057
Postage and shipping	7,161	-	-	-	7,161
Conferences	12,535	15,489	-	-	28,024
Occupancy	54,262	30,784	-	-	85,046
Travel	16,708	29,907	-	-	46,615
Vehicle allowance	12,462	-	-	-	12,462
Depreciation	8,391	3,331	-	-	11,722
Bad debt	30,000	62,500	-	-	92,500
Equipment rental and maintenance	21,216	5,373	-	-	26,589
Dues and subscriptions	6,547	1,295	-	-	7,842
Printing and publications	5,953	1,250	-	-	7,203
Grant expenses	-	25,000	-	-	25,000
Miscellaneous	(33)	-	-	-	(33)
Interest expense	130	-	-	-	130
Insurance project	-	-	107,247	(45,637)	61,610
Expenses allocated to supporting services	(283,374)	-	-	-	(283,374)
Total program service expenses	1,370,160	1,241,977	107,247	(45,637)	2,673,747
Support services:					
Management and general	237,216	-	-	-	237,216
Fundraising	46,158	-	-	-	46,158
Total support services	283,374	-	-	-	283,374
Total unrestricted expenses and losses	1,653,534	1,241,977	107,247	(45,637)	2,957,121
<b>Changes in Temporarily Restricted Net Assets</b>					
Grants - Temporarily restricted	404,000	160,000	-	-	564,000
Interest income - Temporarily restricted	834	-	-	-	834
Net realized and unrealized loss on funds held at community foundations - Temporarily restricted	(40,751)	-	-	-	(40,751)
Net assets released from restriction - Reduction to temporarily restricted net assets	(586,955)	(763,333)	-	-	(1,350,288)
<b>Decrease in Temporarily Restricted Net Assets</b>	(222,872)	(603,333)	-	-	(826,205)
<b>Contributions - Permanently restricted</b>	10,500	-	-	-	10,500
<b>(Decrease) Increase in Net Assets</b>	(346,657)	(570,243)	21,496	-	(895,404)
<b>Net Assets - Beginning of year</b>	2,839,559	754,933	34,048	(5,000)	3,623,540
<b>Net Assets - End of year</b>	<b>\$ 2,492,902</b>	<b>\$ 184,690</b>	<b>\$ 55,544</b>	<b>\$ (5,000)</b>	<b>\$ 2,728,136</b>