

# **United Way for Southeastern Michigan**

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**Consolidated Financial Report**  
**June 30, 2016**

# **United Way for Southeastern Michigan**

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## Independent Auditor's Report

To the Board of Directors  
United Way for Southeastern Michigan

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of United Way for Southeastern Michigan (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016 and 2015 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Way for Southeastern Michigan as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
United Way for Southeastern Michigan

***Emphasis of Matter***

As described in Note 11 to the consolidated financial statements, effective December 31, 2009, United Way for Southeastern Michigan (UWSEM) withdrew from participation in the multiple-employer defined benefit pension plan and filed for a distress termination of the plan with the Pension Benefit Guaranty Corporation (PBGC). During the year ended June 30, 2012, the PBGC approved the distress termination, became the trustee of the plan, and assumed the role of plan administrator. During the year ended June 30, 2014, UWSEM received communications from the PBGC requesting payment for UWSEM's portion of the plan's unfunded benefit obligation and certain other amounts. During the year ended June 30, 2015, a final settlement was reached with the PBGC for \$2,250,000 to satisfy UWSEM's portion of the unfunded benefit obligation. A liability of \$250,000 was previously accrued as of June 30, 2014; for the year ended June 30, 2015, an additional \$2,000,000 of expense was recorded. Our opinion is not modified with respect to this matter.

***Prior Period Adjustment***

As described in Note 18 to the consolidated financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016 on our consideration of United Way for Southeastern Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering United Way for Southeastern Michigan's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

November 9, 2016

# United Way for Southeastern Michigan

## Consolidated Statement of Financial Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u> (as restated)
<b>Assets</b>		
Cash	\$ 21,319,350	\$ 28,829,674
Receivables - Net (Note 2):		
Pledges	13,414,350	14,552,433
Grants and other	4,193,046	3,463,563
Marketable securities (Note 4)	30,376,886	30,188,523
Beneficial interest (Notes 4 and 5)	1,083,458	1,156,912
Restricted cash	500,000	-
Prepaid and other assets	729,011	486,783
Capital assets - Net (Note 6)	1,550,926	1,760,372
Total assets	<u><b>\$ 73,167,027</b></u>	<u><b>\$ 80,438,260</b></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,967,812	\$ 6,929,489
Undistributed grants to community impact partners (Note 10)	1,836,454	6,065,057
Undistributed donor designations	6,956,495	6,810,839
Total liabilities	14,760,761	19,805,385
<b>Net Assets</b>		
Unrestricted:		
Undesignated - Unreserved	8,692,845	11,371,971
Undesignated - Reserved for future program allocations	13,059,332	8,371,773
Board designated (Note 7)	26,462,143	24,903,571
Temporarily restricted (Note 8)	9,404,091	15,697,705
Permanently restricted (Note 8)	787,855	287,855
Total net assets	58,406,266	60,632,875
Total liabilities and net assets	<u><b>\$ 73,167,027</b></u>	<u><b>\$ 80,438,260</b></u>

# United Way for Southeastern Michigan

## Consolidated Statement of Activities and Changes in Net Assets

	Year Ended June 30, 2016				Year Ended June 30, 2015 (as restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support and Revenue</b>								
Annual campaigns	\$ 36,068,112	\$ 870,400	\$ -	\$ 36,938,512	\$ 36,905,726	\$ 1,050,000	\$ -	\$ 37,955,726
Less donor designations	(8,648,018)	-	-	(8,648,018)	(8,561,537)	-	-	(8,561,537)
Less provision for uncollectible pledges	(828,075)	-	-	(828,075)	(1,162,330)	-	-	(1,162,330)
Net assets released from campaign restrictions	465,000	(465,000)	-	-	540,000	(540,000)	-	-
Net campaign results	27,057,019	405,400	-	27,462,419	27,721,859	510,000	-	28,231,859
Administrative fees and fee for service	3,949,602	-	-	3,949,602	3,941,350	-	-	3,941,350
Federal grants	3,558,322	-	-	3,558,322	2,263,029	-	-	2,263,029
State grants	404,649	-	-	404,649	859,929	-	-	859,929
County grants	2,110,575	-	-	2,110,575	2,090,259	-	-	2,090,259
Foundation grants	6,000	2,640,052	-	2,646,052	3,500	2,752,750	-	2,756,250
Other contributions and bequests	21,960	1,932,707	500,000	2,454,667	237,720	11,036,874	-	11,274,594
In-kind gifts revenue	1,475,511	-	-	1,475,511	1,502,132	-	-	1,502,132
Interest and dividend income	855,516	13,462	-	868,978	931,680	2,390	-	934,070
Change in value of beneficial interest	(17,072)	-	-	(17,072)	13,486	-	-	13,486
Net unrealized and realized losses on marketable securities	(735,818)	(10,803)	-	(746,621)	(1,190,237)	(3,581)	-	(1,193,818)
Miscellaneous income	143,470	-	-	143,470	510,893	-	-	510,893
Net assets released from restrictions	11,274,432	(11,274,432)	-	-	9,581,754	(9,581,754)	-	-
Total non-campaign support and revenue	23,047,147	(6,699,014)	500,000	16,848,133	20,745,495	4,206,679	-	24,952,174
Total public support and revenue	50,104,166	(6,293,614)	500,000	44,310,552	48,467,354	4,716,679	-	53,184,033
<b>Expenses</b>								
Program services:								
Gross grants to community impact partners	29,158,965	-	-	29,158,965	31,219,794	-	-	31,219,794
Less donor designations	(8,648,018)	-	-	(8,648,018)	(8,561,537)	-	-	(8,561,537)
Net funds awarded	20,510,947	-	-	20,510,947	22,658,257	-	-	22,658,257
Other program services	16,580,489	-	-	16,580,489	15,431,776	-	-	15,431,776
Total program services	37,091,436	-	-	37,091,436	38,090,033	-	-	38,090,033
Support services:								
Management and general	4,174,192	-	-	4,174,192	3,074,777	-	-	3,074,777
Fundraising	5,271,533	-	-	5,271,533	4,861,020	-	-	4,861,020
Total expenses	46,537,161	-	-	46,537,161	46,025,830	-	-	46,025,830
<b>Increase (Decrease) in Net Assets - Before other changes to net assets</b>	3,567,005	(6,293,614)	500,000	(2,226,609)	2,441,524	4,716,679	-	7,158,203
<b>Pension Benefit Guarantee Corporation Settlement (Note 11)</b>	-	-	-	-	(2,000,000)	-	-	(2,000,000)
<b>Increase (Decrease) in Net Assets</b>	3,567,005	(6,293,614)	500,000	(2,226,609)	441,524	4,716,679	-	5,158,203
<b>Net Assets - Beginning of year - As restated</b>	44,647,315	15,697,705	287,855	60,632,875	44,205,791	10,981,026	287,855	55,474,672
<b>Net Assets - End of year</b>	<b>\$ 48,214,320</b>	<b>\$ 9,404,091</b>	<b>\$ 787,855</b>	<b>\$ 58,406,266</b>	<b>\$ 44,647,315</b>	<b>\$ 15,697,705</b>	<b>\$ 287,855</b>	<b>\$ 60,632,875</b>

# United Way for Southeastern Michigan

## Consolidated Statement of Functional Expenses

	Year Ended June 30, 2016						2016 Total
	Program Services			Support Services			
	2-1-1 Program	Community Investment and Other Programs	Total	Management and General	Fundraising	Total	
Allocations/Awards	\$ -	\$ 29,158,965	\$ 29,158,965	\$ -	\$ -	\$ -	\$ 29,158,965
Less donor designations	-	(8,648,018)	(8,648,018)	-	-	-	(8,648,018)
Net allocations/awards	-	20,510,947	20,510,947	-	-	-	20,510,947
Salaries	1,236,184	6,953,805	8,189,989	2,395,057	2,428,913	4,823,970	13,013,959
Employee benefits	262,677	1,477,617	1,740,294	508,927	516,121	1,025,048	2,765,342
Payroll taxes and insurance	84,066	472,892	556,958	162,875	165,178	328,053	885,011
Total salaries and related expenses	1,582,927	8,904,314	10,487,241	3,066,859	3,110,212	6,177,071	16,664,312
Printing and publications	50,209	210,404	260,613	66,139	119,767	185,906	446,519
Occupancy	52,699	283,630	336,329	96,838	98,272	195,110	531,439
Supplies	38,580	280,336	318,916	22,691	58,610	81,301	400,217
Professional fees	525,416	1,693,205	2,218,621	501,490	497,369	998,859	3,217,480
Employee travel and training	155,179	491,088	646,267	64,383	129,573	193,956	840,223
Meeting and event cost	14,587	89,692	104,279	12,429	260,666	273,095	377,374
Insurance	6,253	35,176	41,429	12,115	32,781	44,896	86,325
Communication	40,670	109,391	150,061	28,248	30,169	58,417	208,478
Equipment expenses	36,793	191,181	227,974	65,626	66,554	132,180	360,154
Postage and shipping	69,429	12,855	82,284	1,022	29,443	30,465	112,749
Dues	52,898	297,704	350,602	101,332	104,185	205,517	556,119
Miscellaneous	326	31,053	31,379	633	862	1,495	32,874
In-kind expenses	-	864,950	864,950	-	596,783	596,783	1,461,733
Depreciation	69,363	390,181	459,544	134,387	136,287	270,674	730,218
Total functional expenses	<u>\$ 2,695,329</u>	<u>\$ 34,396,107</u>	<u>\$ 37,091,436</u>	<u>\$ 4,174,192</u>	<u>\$ 5,271,533</u>	<u>\$ 9,445,725</u>	<u>\$ 46,537,161</u>

# United Way for Southeastern Michigan

## Consolidated Statement of Functional Expenses (Continued)

	Year Ended June 30, 2015						2015 Total
	Program Services			Supporting Services			
	2-1-1 Program	Community Investment and Other Programs	Total	Management and General	Fundraising	Total	
Allocations/Awards	\$ -	\$ 31,219,794	\$ 31,219,794	\$ -	\$ -	\$ -	\$ 31,219,794
Less donor designations	-	(8,561,537)	(8,561,537)	-	-	-	(8,561,537)
Net allocations/awards	-	22,658,257	22,658,257	-	-	-	22,658,257
Salaries	605,002	6,590,115	7,195,117	1,629,361	1,875,399	3,504,760	10,699,877
Employee benefits	125,981	1,372,271	1,498,252	339,285	390,518	729,803	2,228,055
Payroll taxes and insurance	43,430	473,068	516,498	116,964	134,625	251,589	768,087
Total salaries and related expenses	774,413	8,435,454	9,209,867	2,085,610	2,400,542	4,486,152	13,696,019
Printing and publications	42,252	414,104	456,356	78,660	151,906	230,566	686,922
Occupancy	35,694	345,853	381,547	85,509	98,422	183,931	565,478
Supplies	97,563	256,737	354,300	10,839	31,070	41,909	396,209
Professional fees	595,279	1,242,240	1,837,519	389,606	435,920	825,526	2,663,045
Employee travel and training	73,716	409,250	482,966	48,654	141,521	190,175	673,141
Meeting and event cost	9,441	93,829	103,270	10,060	278,885	288,945	392,215
Insurance	3,728	40,610	44,338	10,041	51,194	61,235	105,573
Communication	47,584	132,976	180,560	27,039	32,767	59,806	240,366
Equipment expenses	20,402	216,490	236,892	53,497	61,789	115,286	352,178
Postage and shipping	109,876	22,896	132,772	676	24,641	25,317	158,089
Dues	34,287	368,157	402,444	90,319	108,016	198,335	600,779
Miscellaneous	5,135	222,546	227,681	10,922	13,578	24,500	252,181
In-kind expenses	-	615,782	615,782	-	831,247	831,247	1,447,029
Depreciation	64,366	701,116	765,482	173,345	199,522	372,867	1,138,349
Total functional expenses before Pension Benefit Guaranty Corporation settlement	1,913,736	36,176,297	38,090,033	3,074,777	4,861,020	7,935,797	46,025,830
Pension Benefit Guaranty Corporation settlement	113,086	1,231,811	1,344,897	304,557	350,546	655,103	2,000,000
Total functional expenses after Pension Benefit Guaranty Corporation settlement	<b>\$ 2,026,822</b>	<b>\$ 37,408,108</b>	<b>\$ 39,434,930</b>	<b>\$ 3,379,334</b>	<b>\$ 5,211,566</b>	<b>\$ 8,590,900</b>	<b>\$ 48,025,830</b>

# United Way for Southeastern Michigan

## Consolidated Statement of Cash Flows

	Year Ended	
	June 30, 2016	June 30, 2015 (as restated)
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (2,226,609)	\$ 5,158,203
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	730,218	1,138,349
Unrealized loss on marketable securities	678,369	1,285,096
Change in beneficial interest	17,072	(13,486)
Realized loss (gain) on marketable securities	68,252	(91,278)
Provision for uncollectible pledges	828,075	1,162,330
Contributions made to endowment	(500,000)	-
Changes in operating assets and liabilities which provided (used) cash:		
Pledges receivable	310,008	(1,806,300)
Grants and other receivable	(729,483)	3,222,589
Prepaid and other assets	(242,228)	(195,437)
Accounts payable and accrued liabilities	(961,677)	1,178,973
Undistributed grants to community impact partners	(4,228,603)	(990,427)
Undistributed donor designations	145,656	271,194
Net cash (used in) provided by operating activities	(6,110,950)	10,319,806
<b>Cash Flows from Investing Activities</b>		
Purchases of capital assets	(520,772)	(263,170)
Purchases of marketable securities	(11,164,500)	(11,704,056)
Proceeds from sales of marketable securities	10,229,516	10,159,461
Distributions from beneficial interest	56,382	85,596
Net cash used in investing activities	(1,399,374)	(1,722,169)
<b>Cash Flows from Financing Activities - Contributions made to endowment</b>	500,000	-
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(7,010,324)	8,597,637
<b>Cash and Cash Equivalents - Beginning of year</b>	28,829,674	20,232,037
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 21,819,350</b>	<b>\$ 28,829,674</b>

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

**Nature of Organization** - United Way for Southeastern Michigan (UWSEM) is a Michigan nonprofit corporation dedicated to mobilizing the caring power of Detroit and Southeastern Michigan to improve communities and individual lives in measurable and lasting ways.

During the fiscal year ended June 30, 2015, UWSEM became the sole member of Linked Learning Detroit, L3C (LLD). LLD's purpose is to support and promote educational programs, which integrate academics and career-based learning objectives to improve academic performance. All activity related to LLD for the year ended June 30, 2016 is included in the accompanying consolidated financial statements. There was no activity related to LLD for the year ended June 30, 2015. All intercompany balances and activity between UWSEM and LLD has been eliminated.

Significant accounting policies are as follows:

**Basis of Presentation** - The consolidated financial statements of UWSEM 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 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.

**Cash** - UWSEM places its cash and certain investments with high-quality credit financial institutions. UWSEM's cash balances include bank balances on deposit which exceed FDIC limits.

**Restricted Cash** - During the year ended June 30, 2016, UWSEM received a \$500,000 permanently restricted contribution that was not invested in an endowment fund as of year end. As such, this amount is recorded as restricted cash as of the balance sheet date. Subsequent to year end, the full amount was invested.

**Receivables** - UWSEM's receivables consist of pledge and grant receivables.

Pledge receivables are associated with UWSEM's annual campaign fundraising for UWSEM and other partnering agencies. A provision for uncollectible pledges is estimated based on an assessment of the prior year annual campaign pledges, which remain unpaid, and current market observations. All amounts deemed uncollectible are charged against the provision for uncollectible pledges in the period that determination is made.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

Grants receivable include receivables for services rendered by UWSEM in accordance with grant contracts and reimbursements, that have not been received as of year end. Grants receivable also include contributions made to UWSEM outside of the annual campaign, including corporate and foundation gifts. An allowance for doubtful accounts has not been established as all receivables are deemed collectible.

**Investments** - Investments in readily marketable securities are stated at current quoted market values or other observable inputs. The collective trust fund is recorded at fair value, based on the net asset value (or its equivalent) per unit.

**Capital Assets** - Capital assets 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, which range from three to 10 years. Costs of maintenance and repairs are charged to expense when incurred.

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

**Classification of Net Assets** - Net assets of UWSEM are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting UWSEM'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.

**Board-designated Net Assets** - Board-designated net assets are unrestricted net assets designated by the board for various purposes. These designations are based on board actions, which can be altered or revoked at a future time by the board of directors. See Note 7.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

**Contributions** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Annual campaigns, foundation grants, and other contributions and bequests are revenue items reported on the consolidated statement of activities and changes in net assets using these revenue recognition principles.

Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed time or purpose restrictions are reported as temporarily or permanently restricted support. Restricted contributions are reported as restricted support and restricted net assets when received and reclassified to unrestricted net assets when the restrictions expire.

**Concentration Risks** - A significant portion of UWSEM's campaign revenue and pledges receivable is derived from employee contributions and firm gifts from the "Big Three" automotive manufacturers. This amount is approximately \$15.8 and \$15.1 million of gross revenue for the years ended June 30, 2016 and 2015, respectively, and \$9.0 and \$6.9 million of gross pledges receivable at June 30, 2016 and 2015, respectively. The current and future economic health of the domestic automotive industry impacts collection of this revenue and future contribution levels and could result in a severe near-term negative impact to UWSEM.

**Grants and Fee for Service Revenue** - Federal, state, and county grants and fee for service revenue are exchange transactions and are recognized as services are provided. Amounts received in excess of that earned are recorded as deferred revenue. Administrative fees and fee for service, federal grants, state grants, and county grants are revenue items reported on the consolidated statement of activities and changes in net assets using these revenue recognition principles.

**Agent Transactions** - UWSEM follows standards for accounting for transfers of assets to a non-for-profit organization that raises or holds contributions for others. These standards affect transactions in which UWSEM accepts contributions from a donor and transfers those assets to another entity that is specified by the donor. UWSEM refers to such funds as donor designations. Agency transactions are reported as an obligation to the specified beneficiary, rather than annual campaign revenue to UWSEM. Amounts due to beneficiary organizations are reported as undistributed donor designations on the consolidated statement of financial position.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

**Contributed Services** - UWSEM receives services from a large number of volunteers who give significant amounts of their time to UWSEM's programs, fundraising campaigns, and management. Such services may include those that (a) create or enhance nonfinancial assets, or (b) require specialized skills provided by individuals possessing those skills and would typically need to be purchased if not contributed. No amounts have been recorded for types of donated services which do not meet these requirements. The value of recorded contributed services is determined based on the estimated fair values of such services.

**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** - UWSEM is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

**Upcoming Accounting Change** - In May 2014, the Financial Accounting Standards Board 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 UWSEM's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. UWSEM 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.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

**Upcoming Accounting Change** - In February 2016, the Financial Accounting Standards Board 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 operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for UWSEM's year ending June 30, 2021 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 UWSEM's consolidated financial statements as a result of the leases for operating space and equipment classified as operating leases. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined.

**Upcoming Accounting Change** - The Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by UWSEM, including required disclosures about the liquidity and availability of resources. The new standard is effective for UWSEM's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. UWSEM is currently evaluating the impact this standard will have on the consolidated financial statements.

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including November 9, 2016, which is the date the consolidated financial statements were available to be issued.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 2 - Receivables

Receivables as of June 30 consist of pledges receivable and grants receivable.

Included in pledges receivable are unconditional promises to give generated from the annual campaign. Pledges receivable are as follows:

	<u>2016</u>	<u>2015</u>
Gross promises to give before allowance for doubtful accounts	\$ 17,126,436	\$ 18,772,938
Less allowance for doubtful accounts	<u>(3,712,086)</u>	<u>(4,220,505)</u>
Net pledges receivable	<u>\$ 13,414,350</u>	<u>\$ 14,552,433</u>
Amounts due in:		
Less than one year	\$ 17,126,436	\$ 18,672,938
One to five years	<u>-</u>	<u>100,000</u>
Total	<u>\$ 17,126,436</u>	<u>\$ 18,772,938</u>

Included in grants and other receivables are unconditional promises to give generated from foundation and corporate gifts, outside of the annual campaign, other grants receivable, and bequests. They are as follows:

	<u>2016</u>	<u>2015</u>
Promises to give	\$ 1,780,000	\$ 972,563
Grants and fee for service receivables	2,413,046	2,411,048
Bequest receivable	<u>-</u>	<u>79,952</u>
Grants and other receivables	<u>\$ 4,193,046</u>	<u>\$ 3,463,563</u>
Amounts due in:		
Less than one year	\$ 3,693,046	\$ 3,463,563
One to five years	<u>500,000</u>	<u>-</u>
Total	<u>\$ 4,193,046</u>	<u>\$ 3,463,563</u>

### Note 3 - Conditional Promise to Give

UWSEM received a \$4,000,000 conditional promise to give that is not recognized as an asset in the consolidated statement of financial position. To satisfy the conditions of the promise, UWSEM will need to complete specific milestones and benchmarks as agreed upon in the agreement with the donor. Completing these milestones and benchmarks directly impacts whether future payments will be made. As of June 30, 2016, \$1,350,000 has been recognized within the consolidated statement of activities and changes in net assets due to completion of the first set of milestones and benchmarks.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide 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 UWSEM's assets measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used by UWSEM to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that UWSEM 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.

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. UWSEM's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

As of July 1, 2015, UWSEM implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy. The information for 2015 has been adjusted to conform to the new disclosure requirements.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 4 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2016
<b>Assets</b>					
Investments:					
Money market, certificates of deposit, and other short-term investments	\$ 9,779,091	\$ -	\$ -	\$ -	\$ 9,779,091
Equity securities:					
Mutual funds	10,608,283	-	-	-	10,608,283
Domestic stock	802,672	-	-	-	802,672
Foreign stock	80,545	-	-	-	80,545
Other equity securities	59,746	-	-	-	59,746
Collective trust fund	-	-	-	997,523	997,523
Debt securities:					
Mutual funds	4,963,701	-	-	-	4,963,701
Municipal bonds	-	700,000	-	-	700,000
U.S. government obligations	-	1,725,026	-	-	1,725,026
Collateralized mortgage obligations	-	62,352	-	-	62,352
Asset-backed securities	-	71,900	-	-	71,900
Corporate bonds	-	465,255	-	-	465,255
Foreign bonds	-	26,453	-	-	26,453
Private placements	-	34,339	-	-	34,339
Total marketable securities	26,294,038	3,085,325	-	997,523	30,376,886
Beneficial interest	-	-	1,083,458	-	1,083,458
Total assets	<u>\$ 26,294,038</u>	<u>\$ 3,085,325</u>	<u>\$ 1,083,458</u>	<u>\$ 997,523</u>	<u>\$ 31,460,344</u>

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 4 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2015
<b>Assets</b>					
Investments:					
Money market, certificates of deposit, and other short-term investments	\$ 9,640,346	\$ -	\$ -	\$ -	\$ 9,640,346
Equity securities:					
Mutual funds	10,364,770	-	-	-	10,364,770
Domestic stock	832,838	-	-	-	832,838
Foreign stock	72,989	-	-	-	72,989
Other equity securities	68,376	-	-	-	68,376
Collective trust fund	-	-	-	1,038,029	1,038,029
Debt securities:					
Mutual funds	6,032,968	-	-	-	6,032,968
Municipal bonds	-	835,000	-	-	835,000
U.S. government obligations	-	578,742	-	-	578,742
Collateralized mortgage obligations	-	9,425	-	-	9,425
Asset-backed securities	-	126,091	-	-	126,091
Corporate bonds	-	522,671	-	-	522,671
Foreign bonds	-	46,281	-	-	46,281
Private placements	-	19,997	-	-	19,997
Total marketable securities	27,012,287	2,138,207	-	1,038,029	30,188,523
Beneficial interest	-	-	1,156,912	-	1,156,912
Total assets	<u>\$ 27,012,287</u>	<u>\$ 2,138,207</u>	<u>\$ 1,156,912</u>	<u>\$ 1,038,029</u>	<u>\$ 31,345,435</u>

The fair value of municipal bonds, U.S. government obligations, collateralized mortgage obligations, asset-backed securities, corporate and foreign bonds, and private placements at June 30, 2016 and 2015 were determined primarily based on Level 2 inputs. UWSEM estimates the fair value of these investments by using a reliable third-party investment custodian and multiple investment managers. Valuation methods used are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other economic measures.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 4 - Fair Value Measurements (Continued)

UWSEM measures the beneficial interest in funds held at the Community Foundation for Southeastern Michigan (CFSEM) at fair value on a recurring basis. The fair value of the beneficial interest was determined primarily based on Level 3 inputs. UWSEM estimates the fair value of these investments based upon UWSEM's relative share of assets held and reported by the CFSEM, unless the facts and circumstances indicate the fair value would be different from the present value of the estimated future distributions.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2016 and 2015 (dollars in thousands) are as follows:

	<u>Beneficial Interest</u>
<b>Balance at July 1, 2015</b>	\$ 1,156,912
Distributions	(56,382)
Net change in value	<u>(17,072)</u>
<b>Balance at June 30, 2016</b>	<u>\$ 1,083,458</u>
	<u>Beneficial Interest</u>
<b>Balance at July 1, 2014</b>	\$ 1,229,022
Distributions	(85,596)
Net change in value	<u>13,486</u>
<b>Balance at June 30, 2015</b>	<u>\$ 1,156,912</u>

The net change in value of the beneficial interest is recognized in the consolidated statement of activities and changes in net assets.

### Investments in Entities that Calculate Net Asset Value per Share

UWSEM holds shares or interests in investment companies whereby the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 4 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2016	June 30, 2015	June 30, 2016		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Collective trust fund	\$ 997,523	\$ 1,038,029	\$ -	Daily	Daily

The collective trust fund is designed to provide investment results that correspond to the price and yield performance of publicly traded common stocks of large-sized domestic companies as represented by the Standard & Poor's 500 Growth Index. The trust invests approximately 98 percent in equities and 2 percent in fixed income as of June 30, 2016 and 97 percent in equities and 3 percent in short-term investments as of June 30, 2015. Net asset value of the trust is determined daily and units are issued and redeemed at the calculated net asset value.

### Note 5 - Community Foundation Endowment Fund

UWSEM acquired an endowment fund held by the Community Foundation for Southeastern Michigan (CFSEM) as part of a merger between UWSEM and United Way of Oakland County (UWOC). The endowment was created using unrestricted funds and therefore is shown as unrestricted net assets on the consolidated financial statements; however, UWSEM does not have the ability to draw on the corpus of the endowment unless approval is granted by CFSEM. The recorded amount of approximately \$1,083,000 and \$1,157,000 as of June 30, 2016 and 2015, respectively, represents the present value of the estimated future income stream from the underlying endowment assets. The investment is recorded at fair market value. The purpose of the endowment fund is to provide unrestricted operating support for UWSEM from endowment earnings.

In addition, certain funds donated by outside donors for the benefit of UWSEM are held and managed by CFSEM. Such contributions are subject to variance power maintained by CFSEM. The fair market value of these funds is approximately \$10,000 at June 30, 2016 and 2015. Earnings are available for distribution to UWSEM at the discretion of the CFSEM; therefore, interest and principal balances are not reflected in the consolidated financial statements.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 6 - Capital Assets

The cost of capital assets is summarized as follows:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 3,531,473	\$ 3,520,022
Furniture and equipment	<u>5,124,561</u>	<u>4,653,075</u>
Total cost	8,656,034	8,173,097
Accumulated depreciation	<u>7,105,108</u>	<u>6,412,725</u>
Net property and equipment	<u>\$ 1,550,926</u>	<u>\$ 1,760,372</u>

Depreciation expense was \$730,218 for 2016 and \$1,138,349 for 2015.

### Note 7 - Board-designated Net Assets

Board-designated net assets at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Board-designated net assets:		
Emergency and stabilization	\$ 6,388,183	\$ 5,307,426
Funds functioning as endowment	<u>20,073,960</u>	<u>19,596,145</u>
Total	<u>\$ 26,462,143</u>	<u>\$ 24,903,571</u>

### Note 8 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets constitute grant fund net assets, which contain donor-imposed restrictions as to purpose and time, until those donor-imposed restrictions are satisfied.

	<u>2016</u>	<u>2015</u>
Time-restricted pledges	\$ 100,000	\$ 565,000
Contributions restricted for specific program use	<u>9,304,091</u>	<u>15,132,705</u>
Total temporarily restricted net assets	<u>\$ 9,404,091</u>	<u>\$ 15,697,705</u>

Permanently restricted net assets constitute contributions whereby the principal is permanently restricted and the income may have donor-imposed restrictions. Income from permanently restricted net assets is reclassified to the unrestricted or temporarily restricted categories when donor-imposed restrictions are met. Total permanently restricted net assets held by UWSEM are \$787,855 at June 30, 2016 and \$287,855 at June 30, 2015.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 9 - Donor-restricted and Board-designated Endowments

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

#### Interpretation of Relevant Law

The board of directors of UWSEM 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, UWSEM 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 UWSEM in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, UWSEM 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 UWSEM 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 UWSEM
- (7) The investment policies of UWSEM

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,659	\$ 787,855	\$ 790,514
Board-designated endowment funds	20,073,960	-	-	20,073,960
Total funds	<u>\$ 20,073,960</u>	<u>\$ 2,659</u>	<u>\$ 787,855</u>	<u>\$ 20,864,474</u>

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 9 - Donor-restricted and Board-designated Endowments (Continued)

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ 19,596,145	\$ -	\$ 287,855	\$ 19,884,000
Investment return:				
Investment income	913,454	13,462	-	926,916
Net depreciation (realized and unrealized)	(736,058)	(10,803)	-	(746,861)
Total investment gain	177,396	2,659	-	180,055
Transfers to create board- designated endowment funds	300,419	-	-	300,419
Contributions	-	-	500,000	500,000
Endowment net assets - End of year	<u>\$ 20,073,960</u>	<u>\$ 2,659</u>	<u>\$ 787,855</u>	<u>\$ 20,864,474</u>

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 287,855	\$ 287,855
Board-designated endowment funds	19,596,145	-	-	19,596,145
Total funds	<u>\$ 19,596,145</u>	<u>\$ -</u>	<u>\$ 287,855</u>	<u>\$ 19,884,000</u>

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 9 - Donor-restricted and Board-designated Endowments (Continued)

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets -				
Beginning of year, as restated	\$ 22,525,433	\$ -	\$ 287,855	\$ 22,813,288
Investment return:				
Investment income	925,781	-	-	925,781
Net depreciation, as restated (realized and unrealized)	<u>(1,191,438)</u>	<u>-</u>	<u>-</u>	<u>(1,191,438)</u>
Total investment loss	(265,657)	-	-	(265,657)
Transfers to create board- designated endowment funds	174,224	-	-	174,224
Appropriation of endowment assets for expenditure	<u>(2,837,855)</u>	<u>-</u>	<u>-</u>	<u>(2,837,855)</u>
Endowment net assets - End of year	<u>\$ 19,596,145</u>	<u>\$ -</u>	<u>\$ 287,855</u>	<u>\$ 19,884,000</u>

#### Return Objectives and Risk Parameters

UWSEM has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding in general support of UWSEM while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that UWSEM must hold in perpetuity, as well as board-designated funds. Under this policy, as approved by the board of directors, UWSEM has established a total return objective to provide an average rate of return of approximately 7 percent annually over time. 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, UWSEM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). UWSEM targets a diversified asset allocation of equity-based and fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 9 - Donor-restricted and Board-designated Endowments (Continued)

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

UWSEM has a policy of appropriating for distribution each year up to 3 percent of its endowment fund's average fair value. According to the policy, additional earnings may be used over time with the total of annual support and additional spending limited to the cumulative earnings over a trailing five-year period. In establishing this policy, UWSEM considered the long-term expected return on its endowment. This is consistent with UWSEM's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

The board of directors approved a withdrawal of \$2,250,000 from the endowment fund earnings to cover the final settlement with the Pension Benefit Guaranty Corporation (PBGC) for the pension liability during the year ended June 30, 2015. This was in compliance with the above described spending policy.

### Note 10 - Undistributed Grants to Community Impact Partners

Unconditional grants are recognized as an expense at the time the grant is awarded.

The following summarizes the changes in undistributed grants to community impact partners:

	2016	2015
Undistributed grants to community impact partners -		
Beginning of year	\$ 6,065,057	\$ 7,055,484
Grants approved	5,836,886	8,443,440
Payments made	<u>(10,065,489)</u>	<u>(9,433,867)</u>
Undistributed grants to community impact partners -		
End of year	<u>\$ 1,836,454</u>	<u>\$ 6,065,057</u>

Undistributed grants to community impact partners at June 30, 2016 are scheduled for payment in 2017. The grants approved amount in 2016 decreased from 2015 due to a change in UWSEM's allocation process. In 2016, UWSEM approved three-month contracts instead of the typical 12-month contract. The offset is shown in net assets reserved for future program allocations, to be approved in 2017.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### **Note 11 - Multiple-employer Defined Benefit Pension Plan**

UWSEM acted as the plan sponsor of a multiple-employer defined benefit pension plan (the "multiple-employer plan"), which involved approximately 18 participating agencies. The multiple-employer plan was frozen as of March 15, 2005. A number of eligible employees of UWSEM continue to participate in the plan.

The pension benefits under the multiple-employer plan are based on years of service and the employee's compensation over the last three years of employment ending as of the date the multiple-employer plan was frozen. UWSEM's funding policy was to contribute an amount equal to at least the actuarially determined minimum funding requirement for the multiple-employer plan year under the Internal Revenue Code.

As indicated above, the multiple-employer plan was frozen effective March 15, 2005, with respect to benefits and participation in accordance with provisions of the official plan document. Effective December 31, 2009, UWSEM withdrew from the multiple-employer plan as a participating employer, but maintained the role of plan sponsor and administrator.

In 2009, UWSEM, acting as the plan administrator, filed for a distress termination of the multiple-employer plan with the Pension Benefit Guarantee Corporation (PBGC) with a specified elective date of March 1, 2010.

The distress termination was subsequently approved by the PBGC with the PBGC becoming the trustee of the multiple-employer plan. Over the next several years, settlement negotiations between the PBGC and UWSEM followed. In fiscal year 2013, \$250,000 was recorded as a potential pension liability.

On February 3, 2015, UWSEM reached a settlement agreement with the PBGC. The agreement required UWSEM to make a one-time \$2,250,000 lump-sum payment in order to settle all liabilities. Accordingly, a \$2,250,000 payment was made to the PBGC on February 9, 2015. UWSEM recorded \$2 million PBGC settlement expense during the year ended June 30, 2015.

### **Note 12 - Postretirement Benefit Plan**

As a result of the merger of UWOC and United Way Community Services in 2005, UWSEM assumed a UWOC defined benefit plan covering substantially all former full-time UWOC employees. Benefits are based on years of service and the employee's compensation during the final year of employment. UWSEM's funding policy is to make the minimum annual contribution required by applicable regulations.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 12 - Postretirement Benefit Plan (Continued)

Information pertaining to the plan is as follows for the years ended June 30, 2016 and 2015:

#### Obligations and Funded Status

	Pension Benefits	
	2016	2015
Projected benefit obligation	\$ 1,137,827	\$ 1,042,683
Fair value of plan assets	761,732	810,903
Funded status at end of year	<u>\$ (376,095)</u>	<u>\$ (231,780)</u>

Amounts recognized in the balance sheet consist of the following:

	Pension Benefits	
	2016	2015
Current liabilities	<u>\$ 376,095</u>	<u>\$ 231,780</u>

The net periodic benefit cost of the defined benefit pension plan, which is included in the functional expenses of UWSEM, includes the following components for the years ended June 30, 2016 and 2015:

	Pension Benefits	
	2016	2015
Service cost	\$ 11,845	\$ 12,008
Interest cost	35,817	38,732
Expected return on plan assets	(55,029)	(59,569)
Loss recognized due to settlement	-	466
Total net periodic benefit cost	<u>\$ (7,367)</u>	<u>\$ (8,363)</u>

Amounts accumulated and not yet recognized as components of net periodic benefit cost related to net loss as of June 30, 2016 and 2015 is \$171,864 and \$7,382, respectively. The amounts expected to be reclassified as net periodic benefit cost in the following fiscal year is \$2,060 of net loss.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 12 - Postretirement Benefit Plan (Continued)

	Pension Benefits	
	2016	2015
<b>Change in Benefit Obligation</b>		
Benefit obligation - Beginning of year	\$ 1,042,683	\$ 1,113,593
Service cost	11,845	12,008
Interest cost	35,817	38,732
Change due to assumption change	109,815	2,027
Actuarial gain	-	(796)
Expense charges	(11,845)	(12,008)
Annuities purchased or benefits paid	(50,488)	(110,873)
Benefit obligation - End of year	<u>\$ 1,137,827</u>	<u>\$ 1,042,683</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets - Beginning of year	\$ 810,903	\$ 857,854
Actual return on plan assets	362	51,730
Employer contributions	12,800	24,200
Expense charges	(11,845)	(12,008)
Annuities purchased or benefits paid	(50,488)	(110,873)
Fair value of plan assets - End of year	<u>\$ 761,732</u>	<u>\$ 810,903</u>

#### Assumptions

The following assumptions were used in developing the net pension cost and funded status information for the years ended June 30, 2016 and 2015:

	Pension Benefits	
	2016	2015
Discount rate (benefit obligations)	2.75 %	3.50 %
Discount rate (net periodic benefit cost)	3.50	3.50
Postretirement interest rate	5.50	5.50
Long-term rate of return on plan assets	7.00	7.00

Weighted-average asset allocations by asset categories are as follows for years ended June 30, 2016 and 2015:

	Pension Benefits	
	2016	2015
Equity	99.19 %	92.80 %
General account	0.81	7.20

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 12 - Postretirement Benefit Plan (Continued)

For the years ended June 30, 2016 and 2015, the expected long-term rate of return on plan assets assumption of 7.0 percent was selected using the "building block" approach, described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. A best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.25 percent as of June 30, 2016 and 2015 was selected and added to the real rate of return range to arrive at a best estimate range of 6.56 to 8.71 percent as of June 30, 2016 and 6.50 to 8.63 percent as of June 30, 2015. A rate within the best estimate range of 7.0 percent was selected as of June 30, 2016 and 2015.

The fair values of UWSEM's pension plan assets at June 30, 2016 and 2015 by major asset classes are as follows:

#### Fair Value Measurements at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Balance at June 30, 2016
<b>Asset Classes</b>					
Pooled separate account - Equity (a)	\$ -	\$ -	\$ -	\$ 755,570	\$ 755,570
Unallocated contract (b)	-	6,162	-	-	6,162
Total	\$ -	\$ 6,162	\$ -	\$ 755,570	\$ 761,732

#### Fair Value Measurements at June 30, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Balance at June 30, 2015
<b>Asset Classes</b>					
Pooled separate account - Equity (a)	\$ -	\$ -	\$ -	\$ 752,220	\$ 752,220
Unallocated contract (b)	-	58,683	-	-	58,683
Total	\$ -	\$ 58,683	\$ -	\$ 752,220	\$ 810,903

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 12 - Postretirement Benefit Plan (Continued)

- (a) This class represents investments in an actively managed pooled separate account that invests in a diversified portfolio of common stocks and is valued at quoted market value. This class seeks to outperform the S&P 500 Index and achieve a high level of total return through appreciation of capital. At year end, there were no unfunded commitments or redemption restrictions related to this pooled separate account. Pooled separate accounts are valued at NAV and therefore not included in the leveling table above.
- (b) This class represents an unallocated contract with Mutual of America. This class invests in the general assets of Mutual of America and, as there are no underlying investments of the unallocated contract, the investment is valued based on contract value. Contract value represents deposits made to the contract, plus earnings at guaranteed crediting rates, less withdrawals and fees. Contract value approximates fair value.

The above tables present information about the pension plan assets measured at fair value at June 30, 2016 and 2015 and the valuation techniques used by UWSEM to determine those fair values.

Fair values are determined as described in Note 3.

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

2017	\$	151,000
2018		26,000
2019		158,000
2020		26,000
2021		25,000
2022-2026		547,000

### Note 13 - United Way Worldwide

UWSEM pays annual dues for use of the trademark, nationwide marketing, and training services to United Way Worldwide (UWW), which is a separate and autonomous organization from UWSEM. The annual dues are based on current year campaign projections and are payable during the next calendar year. UWW dues expense during the years ended June 30, 2016 and 2015 was \$372,690 and \$387,870, respectively. As of June 30, 2016 and 2015, \$104,872 and \$191,620, respectively, was payable to UWW based on the respective campaigns.

# United Way for Southeastern Michigan

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### Note 14 - Operating Leases

UWSEM leases its main administrative headquarters under a 10-year noncancelable operating lease expiring in November 2018 and leases various office equipment under three leases that expire in September 2017, July 2019, and June 2020.

UWSEM also entered into a contingent lease agreement expiring in November 2018 for the use of parking within the City of Detroit. This lease is contingent upon the number of spaces used during a monthly period and is calculated at \$90 per space. Due to the contingent nature of this lease, these payments are not included in the future minimum rental payment schedule below. Rental expense under this contingent lease for the years ending June 30, 2016 and 2015 was \$241,927 and \$153,221, respectively.

The following is a schedule of the future minimum rental payments under the above headquarters lease for fiscal years ended June 30:

2017	\$	490,553
2018		464,192
2019		230,340
2020		<u>41,217</u>
Total	\$	<u>1,226,302</u>

Total rent expense on noncontingent lease agreements was approximately \$418,000 and \$402,000 for the years ended June 30, 2016 and 2015, respectively.

### Note 15 - Employee Benefit Plan

UWSEM's employees participate in a tax-deferred annuity plan. Under the terms of the thrift plan, employees can elect to contribute a percentage of their annual compensation. Through March 2009, UWSEM contributed 3 percent of the employees' compensation on behalf of the employees, plus an amount up to 100 percent of the employees' contribution to the plan, not to exceed 2 percent of the employees' compensation. UWSEM suspended the matching contribution of 2 percent, effective April 1, 2009, for nonunion employees, but reinstated it effective January 1, 2015. Employer contributions to the thrift plan amounted to \$487,734 and \$352,439 for the years ended June 30, 2016 and 2015, respectively.

Effective January 1, 2016 automatic deferrals will apply to all participants and require 2 percent of compensation be deferred, unless a contrary election is made. Effective January 1, 2017, each participant's pretax deferral election will be automatically increased by 1 percent annually up to a maximum of 8 percent.

# United Way for Southeastern Michigan

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## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### **Note 16 - Related Party Transactions**

Related party expenses include payments to entities that are affiliated with UWSEM board members for approximately \$1,370,000 and \$473,740 during the years ended June 30, 2016 and 2015, respectively. Included within accounts payable were payments due to agencies of approximately \$385,000 and \$0, as of June 30, 2016 and 2015, respectively. \$1,355,000 and \$391,740 of payments made during the year ended June 30, 2016 and 2015, respectively, related to contracted services to support UWSEM's mission. All other amounts related to legal, consulting, and advertising services provided to UWSEM.

Some members of UWSEM's board serve as executive directors for partnering nonprofit agencies. Total payments to these agencies were approximately \$1,157,000 and \$1,250,000 during the years ended June 30, 2016 and 2015, respectively. Included within liabilities were payments due to the agencies of approximately \$130,000 and \$97,000 as of June 30, 2016 and 2015, respectively. Executive directors excuse themselves from discussions and votes regarding agency funding.

### **Note 17 - Commitments**

UWSEM has employees who operate under a collective bargaining agreement that dictates salary, pension benefits, and funding, as well as working conditions and other terms. The employees are members of the UAW Technical, Office and Professional Union for which an agreement is in effect until June 30, 2017.

### **Note 18 - Prior Period Adjustment**

The consolidated financial statements for the year ended June 30, 2015 have been restated to correct an error in reporting an endowment fund held by a third party (see Note 5). The effect of this restatement was to increase 2015 beginning unrestricted net assets by \$1,229,022, and decrease net income for the year ended June 30, 2015 by \$72,110.