

Michigan League for Public Policy and Subsidiary

**Consolidated Financial Report
with Additional Information for the 18-month Period Ended
December 31, 2014**

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 (the "Organization"), which comprise the consolidated balance sheet as of December 31, 2014 and the related consolidated statements of activities and changes in net assets and cash flows for the 18-month period 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2014 and the changes in net assets and its cash flows for the 18-month period then ended 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 described in Note 3, the consolidated financial statements include funds held at community foundations valued at \$2,382,938 (65 percent of net assets) as of December 31, 2014, whose fair value have 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.

Report on Prior Year Consolidated Financial Statements and Restatement

The consolidated financial statements of Michigan League for Public Policy and Subsidiary as of June 30, 2013 were audited by other auditors, whose report dated January 31, 2014 expressed an unmodified opinion on those statements, prior to the restatement described in Note 10.

As part of our audit of the 18 months ended December 31, 2014 consolidated financial statements, we also audited the adjustments described in Note 10 that were applied to restate the June 30, 2013 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2013 consolidated financial statements of Michigan League for Public Policy and Subsidiary other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2013 consolidated financial statements as a whole.

Plante & Morse, PLLC

May 13, 2015

Michigan League for Public Policy and Subsidiary

Consolidated Balance Sheet December 31, 2014

Assets	
Current Assets	
Cash and cash equivalents	\$ 1,306,926
Receivables:	
Contributions	570,000
Other	64,059
Prepaid expenses and other current assets	<u>41,020</u>
Total current assets	1,982,005
Investments (Note 3)	430,622
Furniture and Equipment - Net (Note 2)	50,561
Funds Held at Community Foundations (Note 4)	<u>2,382,938</u>
Total assets	<u><u>\$ 4,846,126</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 40,791
Deferred revenue	67,123
Accrued liabilities and other	<u>159,209</u>
Total current liabilities	267,123
Pension and Postretirement Obligations (Note 5)	<u>955,463</u>
Total liabilities	1,222,586
Net Assets	
Unrestricted	18,548
Temporarily restricted (Note 7)	1,337,754
Permanently restricted	<u>2,267,238</u>
Total net assets	<u>3,623,540</u>
Total liabilities and net assets	<u><u>\$ 4,846,126</u></u>

Michigan League for Public Policy and Subsidiary

Consolidated Statement of Activities and Changes in Net Assets 18 Months Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	\$ 406,581	\$ 2,631,260	\$ 1,099,614	\$ 4,137,455
Fee for services	935,015	-	-	935,015
Net realized and unrealized gains and losses on investments	51,953	-	-	51,953
Interest income	1,276	-	-	1,276
Net realized and unrealized gains on funds held at community foundations	-	235,852	-	235,852
Total revenue and support	1,394,825	2,867,112	1,099,614	5,361,551
Net assets released from restrictions	3,009,356	(3,009,356)	-	-
Total revenue, support and net assets released from restrictions	4,404,181	(142,244)	1,099,614	5,361,551
Expenses				
Program services:				
Public policy	3,423,075	-	-	3,423,075
Insurance project	205,777	-	-	205,777
Total program services	3,628,852	-	-	3,628,852
Supporting services:				
Management and general	508,135	-	-	508,135
Fundraising	204,030	-	-	204,030
Total expenses	4,341,017	-	-	4,341,017
Increase (Decrease) in Net Assets	63,164	(142,244)	1,099,614	1,020,534
Net Assets (Deficit) - Beginning of year (as restated) (Note 10)	(44,616)	1,479,998	1,167,624	2,603,006
Net Assets - End of year	\$ 18,548	\$ 1,337,754	\$ 2,267,238	\$ 3,623,540

Michigan League for Public Policy and Subsidiary

Consolidated Statement of Cash Flows 18 Months Ended December 31, 2014

Cash Flows from Operating Activities

Increase in net assets	\$ 1,020,534
Adjustments to reconcile increase in net assets to net cash from operating activities:	
Depreciation	15,950
Bad debts	49,900
Realized and unrealized gain on investments	(51,953)
Realized and unrealized gain on funds held at community foundations	(235,852)
Changes in operating assets and liabilities which (used) provided cash:	
Other receivables	(60,581)
Prepaid expenses and other current assets	(30,150)
Accounts payable	14,019
Deferred revenue	17,802
Accrued liabilities and other	18,239
Pension and postretirement obligations	67,123
Net cash provided by operating activities	<u>825,031</u>

Cash Flows from Investing Activities

Proceeds from sale of investments	239,647
Purchase of investments	(88,610)
Net activity for funds held at community foundation	(1,124,256)
Purchase of furniture and equipment	(32,029)
Net cash used in investing activities	<u>(1,005,248)</u>

Net Decrease in Cash and Cash Equivalents (180,217)

Cash and Cash Equivalents - Beginning of year 1,487,143

Cash and Cash Equivalents - End of year \$ 1,306,926

Michigan League for Public Policy and Subsidiary

Notes to Consolidated Financial Statements December 31, 2014

Note I - Nature of Business and Significant Accounting Policies

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

The 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. The 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 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 18 months ended December 31, 2014, MCH, Inc. reimbursed the Organization for approximately \$217,000 in payroll costs processed by the Organization on behalf of MCH, Inc.

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

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. Depreciation expense totaled \$15,950 for the 18-month period ended December 31, 2014. 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, 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.

Contributions Receivable - The Organization's contributions receivable are comprised primarily of grants and allocations committed from various funding agencies for use in the Organization's activities. Contributions receivable at December 31, 2014 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 - Contributions of cash and other assets, 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 that earned is recorded as deferred revenue. Included in fee for services is insurance premiums of \$208,000 collected as part of the Insurance Project for the period ended December 31, 2014.

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.

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.

Michigan League for Public Policy and Subsidiary

Notes to Consolidated Financial Statements December 31, 2014

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

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.

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, 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 2011.

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, 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, 2018; however, FASB is currently considering a one-year delay. 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.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including May 13, 2015, 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, 2014

Note 2 - Furniture and Equipment

The cost of furniture and equipment is summarized as follows:

	Amount	Depreciable Life - Years
Office equipment - Cost	\$ 31,406	3-5
Furniture and fixtures - Cost	36,388	3-5
Computer equipment and software - Cost	7,535	3-5
Total cost	75,329	
Accumulated depreciation	24,768	
Net furniture and equipment	\$ 50,561	

Depreciation expense was \$15,950 for the 18-month period ended December 31, 2014.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the 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, 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, 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, 2014

Assets	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
Investments:				
Domestic equities	\$ 11,765	\$ -	\$ -	\$ 11,765
Life insurance bond annuities	-	418,857	-	418,857
Total investments	11,765	418,857	-	430,622
Funds held at community foundations:				
Kalamazoo Community Foundation	-	-	1,878,538	1,878,538
Community Foundation for Southeast Michigan	-	-	504,400	504,400
Total assets	<u>\$ 11,765</u>	<u>\$ 418,857</u>	<u>\$ 2,382,938</u>	<u>\$ 2,813,560</u>

The fair value of life insurance bond annuities at December 31, 2014 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of these investments based on the underlying subaccount investments provided by the investment custodian containing Level 1 investments.

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

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

Michigan League for Public Policy and Subsidiary

Notes to Consolidated Financial Statements December 31, 2014

Note 3 - Fair Value Measurements (Continued)

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 18 months ended December 31, 2014 are as follows:

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

Unrealized gains and losses of \$235,852 for the 18-months ended December 31, 2014 and is reported in net realized and unrealized gains on funds held at community foundation in the consolidated statement of activities. There were no realized gains or losses during 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 and liabilities. 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.

Note 4 - Community Foundation Endowment Fund

The Organization has established a permanent endowment fund held by the Kalamazoo Community Foundation (KCF) and the Community Foundation for Southeastern Michigan (CFSM). The recorded amount of approximately \$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 are 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, 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, 2014, all participating employees have vested. The League has frozen this plan and is no longer making contributions to it.

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
Projected benefit obligation	\$ 1,057,993	\$ 457,660
Fair value of plan assets at beginning of year	560,190	-
Funded status at end of year	<u>\$ (497,803)</u>	<u>\$ (457,660)</u>

The accumulated benefit obligation is \$1,057,993 at December 31, 2014.

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

	Pension Benefits	Other Postretirement Benefits
Net periodic benefit cost	\$ 102,908	\$ 36,886
Contributions	89,000	32,992
Net investment gain	69,738	-
Benefits paid	16,683	32,992

Michigan League for Public Policy and Subsidiary

Notes to Consolidated Financial Statements December 31, 2014

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

Assumptions

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

	Pension Benefits	Other Postretirement Benefits
Discount rate	3.00 %	3.66 %

Weighted-average assumptions used to determine net periodic benefit cost for the 18-months ended December 31:

	Pension Benefits	Other Postretirement Benefits
Discount rate	3.75 %	3.66 %
Expected long-term return on plan assets	7.00	

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

The healthcare cost trend rate assumed for next year is five percent.

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, 2014

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

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

Fair Value Measurements at December 31, 2014

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

The above tables present information about the pension plan assets measured at fair value at December 31, 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, 2014.

Cash Flow

Contributions

The Organization expects to contribute \$119,000 to its pension plan in 2015. The Organization expects to make contributions to the other postretirement benefit plan to pay current retiree benefits in 2015.

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
2015	\$ 276,000	\$ 32,178
2016	-	32,352
2017	221,000	33,064
2018	-	33,676
2019	33,000	34,236
2020-2024	177,000	180,950

Michigan League for Public Policy and Subsidiary

Notes to Consolidated Financial Statements December 31, 2014

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 the 18-month period ended December 31, 2014 was \$54,785.

Note 7 - Temporarily Restricted Net Assets

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

Program grant contracts	\$ 57,019
Michigan Consumers for Healthcare grants	615,833
Accumulation for endowment earnings	94,902
Time restrictions	<u>570,000</u>
Total temporarily restricted net assets	<u>\$ 1,337,754</u>

Note 8 - Donor Restricted and Board Designated Endowments

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.

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,

Michigan League for Public Policy and Subsidiary

Notes to Consolidated Financial Statements December 31, 2014

Note 8 - Donor Restricted and Board Designated Endowments (Continued)

- (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, 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
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 \$5,600 as of December 31, 2014. 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, 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. Beginning in 2015, the Organization plans to contribute \$35,000 per year of the endowment earnings to the pension plan.

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:

2015	\$	97,773
2016		99,690
2017		84,710
2018		62,753
Thereafter		90,897
Total	\$	<u>435,823</u>

Total rent expense on these leases for 2014 was approximately \$99,426.

Michigan League for Public Policy and Subsidiary

Notes to Consolidated Financial Statements December 31, 2014

Note 10 - Prior Period Adjustment

The beginning net assets for July 1, 2013 have been restated to correct an error in recording funds deposited at community foundations and to adjust the retiree health obligation to an actuarial determined amount. The effect of the restatements was to increase funds held at community foundations (asset) and permanently restricted net assets by \$1,022,830, and to increase the postretirement obligation and decrease unrestricted net assets for \$328,766.

Additional Information

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 18-month period ended December 31, 2014 and have issued our report thereon dated May 13, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes 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 audit 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 13, 2015

Michigan League for Public Policy and Subsidiary

Consolidating Balance Sheet December 31, 2014

	Michigan League For Public Policy (MLPP)	MCH (Department of MLPP)	Michigan League Insurance Project for Nonprofits, Inc.	Eliminating Entries	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 516,411	\$ 737,045	\$ 53,470	\$ -	\$ 1,306,926
Receivables:					
Contributions	477,500	92,500	-	-	570,000
Other	123,102	-	6,048	(65,091)	64,059
Prepaid expenses and other current assets	-	-	41,020	-	41,020
Total current assets	1,117,013	829,545	100,538	(65,091)	1,982,005
Investments	430,622	-	-	-	430,622
Furniture and Equipment - Net	32,032	17,896	633	-	50,561
Funds Held at Community Foundations	2,382,938	-	-	-	2,382,938
Investment in Subsidiary	5,000	-	-	(5,000)	-
Total assets	\$ 3,967,605	\$ 847,441	\$ 101,171	\$ (70,091)	\$ 4,846,126

Michigan League for Public Policy and Subsidiary

Consolidating Balance Sheet (Continued) December 31, 2014

	Michigan League For Public Policy (MLPP)	MCH (Department of MLPP)	Michigan League Insurance Project for Nonprofits, Inc.	Eliminating Entries	Total
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 13,374	\$ 27,417	\$ -	\$ -	\$ 40,791
Deferred revenue	-	-	67,123	-	67,123
Accrued liabilities and other	159,209	65,091	-	(65,091)	159,209
Total current liabilities	172,583	92,508	67,123	(65,091)	267,123
Pension and Postretirement Obligations	955,463	-	-	-	955,463
Net Assets					
Unrestricted	(57,100)	46,600	34,048	(5,000)	18,548
Temporarily restricted	629,421	708,333	-	-	1,337,754
Permanently restricted	2,267,238	-	-	-	2,267,238
Total net assets	2,839,559	754,933	34,048	(5,000)	3,623,540
Total liabilities and net assets	\$ 3,967,605	\$ 847,441	\$ 101,171	\$ (70,091)	\$ 4,846,126

Michigan League for Public Policy and Subsidiary

Consolidating Statement of Activities and Changes in Net Assets 18 Months Ended December 31, 2014

	Michigan League For Public Policy (MLPP)	MCH (Department of MLPP)	Michigan League Insurance Project for Nonprofits, Inc.	Eliminations	Totals
Unrestricted Revenue and Gains					
Contributions - Unrestricted	\$ 309,037	\$ 97,544	\$ -	\$ -	\$ 406,581
Fee for services	501,401	238,692	194,922	-	935,015
Net realized and unrealized gains - unrestricted	51,953	-	-	-	51,953
Interest income - Unrestricted	1,265	-	11	-	1,276
Total unrestricted revenue and gains	863,656	336,236	194,933	-	1,394,825
Unrestricted Expenses and Losses					
Program:					
Salaries and wages	1,462,794	709,998	48,885	-	2,221,677
Employee pension	148,225	11,409	-	-	159,634
Payroll taxes	122,533	53,169	17,218	-	192,920
Employee insurances	315,558	99,500	7,745	-	422,803
Supplies	9,533	3,523	1,017	-	14,073
Meals	984	462	101	-	1,547
Telephone	12,673	19,040	-	-	31,713
Contract and professional fees	239,637	414,775	18,037	-	672,449
Licenses	-	-	235	-	235
Insurance	10,491	2,759	-	-	13,250
Postage and shipping	8,391	80	150	-	8,621
Conferences	30,094	26,809	2,137	-	59,040
Occupancy	91,404	19,800	-	-	111,204
Travel	36,624	64,418	9,876	-	110,918
Vehicle allowance	18,000	-	-	-	18,000
Depreciation	11,205	4,034	711	-	15,950
Bad debt	49,900	-	-	-	49,900
Equipment rental and maintenance	43,754	19,156	636	-	63,546
Advertising and promotion	-	-	1,919	-	1,919
Dues and subscriptions	34,751	1,344	5,926	-	42,021
Printing and publications	7,655	6,808	-	-	14,463
Grant expenses	2,525	20,000	-	-	22,525
Miscellaneous	1,425	-	-	-	1,425
Insurance premiums	-	-	91,184	-	91,184
Expenses allocated to supporting services	(460,842)	(251,323)	-	-	(712,165)
Total program service expenses	2,197,314	1,225,761	205,777	-	3,628,852
Support services:					
Management and general	328,814	179,321	-	-	508,135
Fundraising	132,028	72,002	-	-	204,030
Total support services	460,842	251,323	-	-	712,165
Total unrestricted expenses and losses	2,658,156	1,477,084	205,777	-	4,341,017
Changes in Temporarily Restricted Net Assets					
Contributions - Temporarily restricted	1,156,260	1,475,000	-	-	2,631,260
Distributions on split interest agreements - Temporarily restricted	235,852	-	-	-	235,852
Increase in Temporarily Restricted Net Assets	1,392,112	1,475,000	-	-	2,867,112
Contributions - Permanently restricted	1,099,614	-	-	-	1,099,614
Increase (Decrease) in Net Assets	697,226	334,152	(10,844)	-	1,020,534
Net Assets - Beginning of year (as restated)	2,142,333	420,781	44,892	(5,000)	2,603,006
Net Assets - End of year	<u>\$ 2,839,559</u>	<u>\$ 754,933</u>	<u>\$ 34,048</u>	<u>\$ (5,000)</u>	<u>\$ 3,623,540</u>