

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

COMBINING FINANCIAL STATEMENTS

For the year ended
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

September 20, 2016

To the Board of Directors
Junior Achievement of the Michigan
Great Lakes, Inc. and Related Entity
Grand Rapids, Michigan

We have audited the accompanying combining financial statements of Junior Achievement of the Michigan Great Lakes, Inc. and related entity, which comprise the combining statement of financial position as of June 30, 2016, and the related combining statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combining financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combining 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 combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining 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 combining financial statements referred to above present fairly, in all material respects, the financial position of Junior Achievement of the Michigan Great Lakes, Inc. and related entity as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Junior Achievement of the Michigan Great Lakes, Inc. and related entity's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hungerford Nichols

Certified Public Accountants

FINANCIAL STATEMENTS

COMBINING STATEMENT OF FINANCIAL POSITION

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

June 30, 2016

With comparative totals for June 30, 2015

	Junior Achievement	
	Unrestricted	Temporarily Restricted
ASSETS		
Cash	\$ 540,103	\$ 567,040
Restricted custodial cash	28,764	-
Investments	1,839,689	-
Current promises to give	57,802	1,450,886
Other receivables	-	-
Inventory	94,850	-
Prepaid expenses	119,248	-
Total Current Assets	2,680,456	2,017,926
Promises to give, net of allowance of \$29,115 in 2016 and \$11,204 in 2015	-	56,335
Promises to give - Capstone, net of discount	-	1,234,093
Restricted investments - Capstone	-	281,660
Due from affiliate	-	-
Land, property and equipment - net	542,513	-
Beneficial interest in perpetual endowment funds	-	23,790
Total Long Term Assets	542,513	1,595,878
Total Assets	\$ 3,222,969	\$ 3,613,804
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 214,399	\$ -
Due to affiliate	117,889	-
Scholarships payable	10,750	-
Capital lease obligation, current portion	1,433	-
Custodial fund	28,764	-
Total Current Liabilities	373,235	-
Capital lease obligation, net of current portion	3,845	-
Total Liabilities	\$ 377,080	\$ -
Net Assets		
Unrestricted:		
Undesignated	\$ 2,799,153	\$ -
Board designated Northern Service Office assets	46,736	-
Total unrestricted net assets	2,845,889	-
Temporarily restricted	-	3,613,804
Permanently restricted	-	-
Total Net Assets	2,845,889	3,613,804
Total Liabilities and Net Assets	\$ 3,222,969	\$ 3,613,804

Permanently Restricted	Foundation		2016		2015	
	Unrestricted	Eliminations	Combined Totals		Combined Totals	
\$ -	\$ -	\$ -	\$ 1,107,143	\$ 788,728		
-	-	-	28,764	41,789		
-	-	-	1,839,689	1,941,287		
-	-	-	1,508,688	675,270		
-	-	-	-	6,081		
-	-	-	94,850	118,133		
-	-	-	119,248	91,908		
-	-	-	4,698,382	3,663,196		
-	-	-	56,335	9,670		
-	-	-	1,234,093	282,700		
-	-	-	281,660	320,251		
-	117,889	(117,889)	-	-		
-	-	-	542,513	76,465		
45,882	-	-	69,672	68,342		
45,882	117,889	(117,889)	2,184,273	757,428		
\$ 45,882	\$ 117,889	\$ (117,889)	\$ 6,882,655	\$ 4,420,624		
\$ -	\$ -	\$ -	\$ 214,399	\$ 117,896		
-	-	(117,889)	-	-		
-	-	-	10,750	5,250		
-	-	-	1,433	1,570		
-	-	-	28,764	41,789		
-	-	(117,889)	255,346	166,505		
-	-	-	3,845	5,415		
\$ -	\$ -	\$ (117,889)	\$ 259,191	\$ 171,920		
\$ -	\$ 117,889	\$ -	\$ 2,917,042	\$ 2,534,513		
-	-	-	46,736	47,934		
-	117,889	-	2,963,778	2,582,447		
-	-	-	3,613,804	1,620,375		
45,882	-	-	45,882	45,882		
45,882	117,889	-	6,623,464	4,248,704		
\$ 45,882	\$ 117,889	\$ (117,889)	\$ 6,882,655	\$ 4,420,624		

COMBINING STATEMENT OF ACTIVITIES

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Junior Achievement	
	Unrestricted	Temporarily Restricted
Public Support and Revenues		
Contributions		
Corporate	\$ 207,564	\$ 50,751
Individual	110,194	75,510
Foundations	296,882	40,234
In-kind contributions	121,483	-
Capstone	-	2,360,031
Program service fees	15,300	-
Special events, net of expense of \$239,646 and \$218,179	452,872	252,276
Net assets released from restrictions	769,210	(769,210)
Total Public Support and Revenues	1,973,505	2,009,592
Investment Gain (Loss)		
Investment income	48,266	7,321
Net unrealized gain (loss) on investments	(147,810)	(24,814)
Unrealized gain on revaluation of beneficial interest	-	1,330
Total Investment Gain (Loss)	(99,544)	(16,163)
Total Public Support and Revenues	1,873,961	1,993,429
Expenses		
Program services	1,209,854	-
General and administrative	133,980	-
Fundraising	108,520	-
Total program and support services	1,452,354	-
Program license fee	47,899	-
Total Expenses	1,500,253	-
Change in Net Assets	373,708	1,993,429
Net Assets, beginning of year	2,472,181	1,620,375
Net Assets, end of year	\$ 2,845,889	\$ 3,613,804

Permanently Restricted	Foundation		2016	2015
	Unrestricted		Combined Totals	Combined Totals
\$ -	\$ -		\$ 258,315	238,580
-	5,105		190,809	156,676
-	-		337,116	355,561
-	-		121,483	127,905
-	-		2,360,031	114,329
-	-		15,300	1,750
-	-		705,148	551,236
-	-		-	-
-	5,105		3,988,202	1,546,037
-	-		55,587	52,932
-	2,518		(170,106)	50,317
-	-		1,330	1,482
-	2,518		(113,189)	104,731
-	7,623		3,875,013	1,650,768
-	-		1,209,854	1,092,006
-	-		133,980	116,858
-	-		108,520	113,018
-	-		1,452,354	1,321,882
-	-		47,899	47,727
-	-		1,500,253	1,369,609
-	7,623		2,374,760	281,159
45,882	110,266		4,248,704	3,967,545
\$ 45,882	\$ 117,889		\$ 6,623,464	\$ 4,248,704

COMBINING STATEMENT OF FUNCTIONAL EXPENSES

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Junior Achievement			Total Program Services
	Elementary Program	Middle School	High School	
Wages and salaries	\$ 446,964	\$ 100,182	\$ 84,769	\$ 631,915
Contract and temporary work	45,137	10,915	6,064	62,116
Payroll taxes	35,341	7,921	6,703	49,965
Employee benefits	99,281	21,275	17,729	138,285
Staff conferences and seminars	17,929	6,724	4,803	29,456
Audit and professional fees	5,548	2,616	2,012	10,176
Postage	3,432	797	613	4,842
Local travel	10,081	4,320	2,700	17,101
Public relations and membership Communications	2,364	1,013	633	4,010
	7,203	1,672	1,286	10,161
Equipment and software purchase, repairs and maintenance	2,693	625	481	3,799
Office supplies	3,199	743	571	4,513
Rent and storage	28,854	6,870	5,496	41,220
Program materials	41,108	41,107	41,107	123,322
Depreciation	7,921	1,839	1,414	11,174
Fundraising expense	-	-	-	-
Program and general insurance	9,270	2,152	1,655	13,077
Teacher driven strategy	530	-	-	530
Interest	-	-	-	-
Banking and investment fees	3,103	721	554	4,378
Scholarships	-	-	8,750	8,750
Uncollectible pledges	16,513	3,833	2,949	23,295
Miscellaneous	12,596	2,924	2,249	17,769
	\$ 799,067	\$ 218,249	\$ 192,538	\$ 1,209,854

				2016	2015
General and Administrative	Fund-Raising	Total	Foundation	Combined Total	Combined Total
\$ 77,063	\$ 61,650	\$ 770,628	\$ -	\$ 770,628	\$ 660,458
1,213	3,032	66,361	-	66,361	72,970
6,093	4,875	60,933	-	60,933	52,511
24,820	14,183	177,288	-	177,288	162,033
-	2,561	32,017	-	32,017	21,401
3,220	1,006	14,402	-	14,402	13,292
981	306	6,129	-	6,129	7,324
-	900	18,001	-	18,001	19,198
-	211	4,221	-	4,221	3,884
2,058	643	12,862	-	12,862	11,491
769	240	4,808	-	4,808	7,142
913	286	5,712	-	5,712	6,647
2,290	2,290	45,800	-	45,800	51,600
-	-	123,322	-	123,322	125,156
2,264	707	14,145	-	14,145	14,008
-	11,926	11,926	-	11,926	28,037
2,648	828	16,553	-	16,553	17,851
-	-	530	-	530	3,290
530	-	530	-	530	626
886	277	5,541	-	5,541	4,490
-	-	8,750	-	8,750	3,500
4,718	1,474	29,487	-	29,487	29,547
3,514	1,125	22,408	-	22,408	5,426
\$ 133,980	\$ 108,520	\$ 1,452,354	\$ -	\$ 1,452,354	\$ 1,321,882

COMBINING STATEMENT OF CASH FLOWS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Junior		Foundation
	Achievement		Foundation
Cash Flows from Operating Activities			
Change in net assets	\$ 2,367,137	\$	7,623
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	14,145		-
Net unrealized and realized (gain) loss on investments	172,624		(2,518)
Unrealized gain on revaluation of beneficial interest	(1,330)		-
Campaign cash collected restricted for long term purposes	(313,500)		-
In-kind donation of equipment	(6,000)		-
Changes in operating assets and liabilities:			
Promises to give/other receivables	(1,831,476)		-
Inventory	23,283		-
Prepaid expenses	(27,340)		-
Due to/from affiliate	5,105		(5,105)
Accounts payable and accrued expenses	96,503		-
Scholarships payable	5,500		-
Custodial fund	6,081		-
	<hr/>		<hr/>
Net Cash Provided by Operating Activities	510,732		-
	<hr/>		<hr/>
Cash Flows from Investing Activities			
Purchase of land, property and equipment	(474,193)		-
Proceeds from sale of investments	300,000		-
Purchase of investments	(329,918)		-
	<hr/>		<hr/>
Net Cash Used for Investing Activities	(504,111)		-
	<hr/>		<hr/>
Cash Flows from Financing Activities			
Principal payments under capital lease obligations	(1,706)		-
Campaign cash collected restricted for long term purposes	313,500		-
	<hr/>		<hr/>
Net Cash Provided by Financing Activities	311,794		-
	<hr/>		<hr/>
Net Increase in Cash	318,415		-
	<hr/>		<hr/>
Cash, beginning of year	788,728		-
	<hr/>		<hr/>
Cash, end of year	\$ 1,107,143	\$	-

Note: Restricted custodial cash of \$28,764 is not included in the statement of cash flows because it is not available for general operations.

Eliminations	2016		2015	
		Combined Totals		Combined Totals
\$ -	\$	2,374,760	\$	281,159
-		14,145		14,008
-		170,106		(50,317)
-		(1,330)		(1,482)
-		(313,500)		(181,150)
-		(6,000)		(20,500)
-		(1,831,476)		72,157
-		23,283		(14,905)
-		(27,340)		7,948
-		-		-
-		96,503		10,281
-		5,500		500
-		6,081		7,971
-		510,732		125,670
-		(474,193)		(4,022)
-		300,000		-
-		(329,918)		(111,309)
-		(504,111)		(115,331)
-		(1,706)		(1,576)
-		313,500		181,150
-		311,794		179,574
-		318,415		189,913
-		788,728		598,815
\$ -	\$	1,107,143	\$	788,728

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note A – Nature of Business and Summary of Significant Accounting Policies

Organization and Operations

Junior Achievement of the Michigan Great Lakes, Inc. (Organization) is a not-for-profit organization operating as a franchise of Junior Achievement USA. The franchise agreement with Junior Achievement USA requires the Organization to pay a program license fee to Junior Achievement USA based on revenues earned. The Organization provides business education and experiences primarily to students in Western, Mid, and Northern Michigan through various in-school and after school programs. Junior Achievement of the Michigan Great Lakes Foundation (Foundation) funds certain projects as proposed by Junior Achievement of the Michigan Great Lakes, Inc.

Combining Financial Statements

The accompanying combining financial statements include the accounts of Junior Achievement of the Michigan Great Lakes, Inc. and Junior Achievement of the Michigan Great Lakes Foundation. Intercompany transactions and balances have been eliminated in combination.

Method of Accounting

The combining financial statements have been prepared on the accrual basis.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Cash

The Organization maintains cash balances at two banks located in Grand Rapids, Michigan. The balances at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The cash balances may exceed the insured amount throughout the year.

Investments

In accordance with accounting principles generally accepted in the United States of America, the Organization is required to measure qualifying equity and all debt securities at fair value in the Statement of Financial Position, with realized and unrealized gains and losses presented in the statement of activities. See Note E for fair value measurements.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note A – Nature of Business and Summary of Significant Accounting Policies (Continued)

Contributions

In accordance with accounting principles generally accepted in the United States of America, contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give with payment dates in future periods are reported as temporarily restricted net assets. When the restriction expires in the year of payment, temporarily restricted net assets are reclassified to unrestricted net assets. If promises to give become uncollectible, they will be charged against operations when that determination is made.

Inventory

Inventory is stated at lower of cost (first-in, first-out method) or market. Inventory consists of program kits, gift cards and logo items.

Land, Property and Equipment

Land, property and equipment are stated at cost, if purchased, for all expenditures in excess of \$500. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful life of the respective assets.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note A – Nature of Business and Summary of Significant Accounting Policies (Continued)

Donated Services

A large number of volunteers have contributed significant amounts of time to the Organization without compensation. However, these donated services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited as detailed in the statement of functional expenses. Fundraising costs include both direct and indirect costs related to the solicitation of contributions from the general public.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with accounting principles generally accepted in the United States of America which require that tax positions taken be more-likely-than-not to be sustained. Management believes that the Organization has no significant unrecognized tax benefits under that criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses. The Organization's federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they were filed.

Advertising

The Organization expenses advertising costs as they are incurred. The Organization normally does not incur significant advertising costs.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN
GREAT LAKES, INC. AND RELATED ENTITY
For the year ended June 30, 2016

Note A – Nature of Business and Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Organization's financial position and operations. The summarized information is presented in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

Note B – Restricted Cash/Custodial Fund

Restricted cash of \$28,764 represents amounts held on deposit at a financial institution for payment to or on behalf of the Michigan state-wide Junior Achievement chapters. Junior Achievement of the Michigan Great Lakes has no authority over these funds and, accordingly, transactions from the accounts are not included in the statement of activities. A corresponding liability is shown as a custodial fund.

NOTES TO COMBINING FINANCIAL STATEMENTS

**JUNIOR ACHIEVEMENT OF THE MICHIGAN
GREAT LAKES, INC. AND RELATED ENTITY**
For the year ended June 30, 2016

Note C – Due From/Due to Affiliate

The receivable balance in the Foundation represents funds maintained in an Organization trust account with a fair market value of \$117,889. Interest and fees from this investment are recorded on the basis of the Foundation's pro rata share of the account balance at the beginning of each year. The corresponding liability appears on the balance sheet of the Organization. All balances are eliminated upon combination of the financial statements.

Note D – Pledges Receivable

The Organization had the following unconditional promises to give as of June 30, 2016:

Receivable in the year ending June 30, 2017	\$ 1,508,688
2018	550,320
2019	409,900
2020	289,891
2021	<u>165,000</u>
Total unconditional promises to give	2,923,799
Less: discounts to net present value at 3%	(95,568)
Less: allowance for uncollectible pledges	<u>(29,115)</u>
Net unconditional promises to give	<u><u>\$ 2,799,116</u></u>

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note E – Fair Value Measurement

Accounting principles generally accepted in the United States of America establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 - Quoted prices in markets that are not considered active or financial instruments for which significant inputs, include quoted prices for similar assets or liabilities, interest rates, credit risk, etc.

Level 3 - Significant unobservable inputs, which may include the Organization's own assumptions in determining fair value.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value on a recurring basis comprise the following:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value June 30, 2016</u>
Equities	\$ 242,086	\$ -	\$ -	\$ 242,086
Mutual funds - fixed income	1,877,592	-	-	1,877,592
Certificates of deposit	1,671	-	-	1,671
Beneficial interest in perpetual endowment	-	-	69,672	69,672
	<u>\$ 2,121,349</u>	<u>\$ -</u>	<u>\$ 69,672</u>	<u>\$ 2,191,021</u>

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value June 30, 2015</u>
Equities	\$ 408,212	\$ -	\$ -	\$ 408,212
Mutual funds - fixed income	1,851,655	-	-	1,851,655
Certificates of deposit	1,671	-	-	1,671
Beneficial interest in perpetual endowment	-	-	68,342	68,342
	<u>\$ 2,261,538</u>	<u>\$ -</u>	<u>\$ 68,342</u>	<u>\$ 2,329,880</u>

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note E – Fair Value Measurement (Continued)

As stated in Note G, the Organization is the beneficiary under an agency endowment administered by the Muskegon Community Foundation (Foundation). The Foundation invests in a variety of investment types that are subject to Level 1, 2 and 3 fair value inputs. The fair value of the beneficial interest was \$30,023 as of June 30, 2016.

The Organization is also the beneficiary under an agency endowment administered by the Capital Region Community Foundation (Foundation). The Foundation invests in a variety of investment types that are subject to Level 1, 2 and 3 fair value inputs. The fair value of the beneficial interest was \$39,649 as of June 30, 2016.

Note F – Property and Equipment

Property and equipment are summarized as follows:

	<u>Amount</u>	<u>Estimated Useful Life - Years</u>
Land - Capstone	\$ 474,193	
Telephone equipment	17,395	5
Office equipment	73,847	3 to 5
Office furniture and fixtures	<u>207,603</u>	3 to 15
Total cost	773,038	
Less accumulated depreciation	<u>230,525</u>	
Net carrying amount	<u><u>\$ 542,513</u></u>	

Note G – Beneficial Interest in Perpetual Endowment Funds

The Muskegon Community Foundation (Foundation) was established with a principal purpose to receive and administer funds as endowments for various charitable and educational purpose organizations in the lakeshore community. The Organization established the Muskegon Lakeshore Region Junior Achievement Fund (Fund) whose assets are being held and managed by the Foundation.

The Capital Region Community Foundation (Foundation) was established with a principal purpose to receive and administer funds as endowments for various charitable and educational purpose organizations in the central Michigan community. The Organization established the JA Mid-Michigan Endowment Fund (Fund) whose assets are being held and managed by the Foundation.

The Funds will be used for support of the charitable or educational purposes of the Organization upon written request. Any un-requested or undistributed income is carried forward for future years, unless otherwise specified by the Organization in writing.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note G – Beneficial Interest in Perpetual Endowment Funds (Continued)

The Fund agreements, which grant variance power to the Foundations, allow the Organization a 30-day period during which it may advise the Foundations of its views regarding the proposed exercise of the power and take such other action as it deems appropriate. The Foundations agree that if their Board of Trustees propose to exercise the variance power, the exercise of such power shall not be effective earlier than at least 30 days after the written notice to the Organization.

The aggregate amounts reported in the Statement of Financial Position are \$69,672 and \$68,342 at June 30, 2016 and 2015, respectively, and are described as “Beneficial interest in perpetual endowment funds.”

In addition, in honor of Edward Frey, the founder of Junior Achievement in the Grand Rapids area, the Frey Foundation has established an endowment fund at the Grand Rapids Community Foundation in August of 2000 to benefit Junior Achievement of the Michigan Great Lakes, Inc. The purpose of the fund is to support Junior Achievement’s mission and programming in perpetuity. The current value as of June 30, 2016 was \$402,380.

The Edward Frey endowment fund is not included in the accompanying financial statements since the funds are not under the control of the Organization. Distributions received from the endowment funds are recorded as contribution income when received.

Note H – Restriction on Net Assets

Temporarily restricted net assets were \$3,613,804 and \$1,620,375 at June 30, 2016 and 2015, respectively. The temporarily restricted net assets consist of unconditional promises to give with payment dates in future periods for both operations and the Capstone Project, and cash donations received in advance for use in future periods for both operating purposes and the Capstone Project.

Note I – Lease Obligations

The Organization is currently leasing its main office space in Grand Rapids on a two year lease that requires monthly payments of \$3,000 and expires on June 30, 2018. The Organization also leases office space in Grand Haven and Lansing on a month to month basis for monthly payments of \$900 and \$500 per month, respectively. Operating lease expense was \$45,800 for the year ended June 30, 2016. Future lease payments are expected to be similar to current payments. Additionally, the Organization leases equipment on a month to month basis. Total rent expense for this equipment was \$2,197 for the year ended June 30, 2016.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note J – Capital Lease Obligations

The Organization is currently leasing a copier under a capital lease expiring February 2019 with an annual interest rate of 8%. The asset and liability under the capital lease are recorded at the lower of present value of the minimum lease payments or the fair value of the asset. The capital lease liability is secured by the related asset being leased. The asset is amortized over the related lease term. Amortization of \$1,812 was charged to depreciation for the year ended June 30, 2016. Interest expense of \$497 was charged for the year ended June 30, 2016. Following is a summary of property held under capital lease as of June 30, 2016:

Copier	\$	9,059
Less: accumulated depreciation		<u>(4,303)</u>
	\$	<u><u>4,756</u></u>

The total remaining lease payments required under the capital lease as of June 30, 2016, is as follows:

Year ending June 30, 2017	\$	2,204
2018		2,204
2019		<u>1,470</u>
Net minimum lease payments		5,878
Amount representing interest		<u>(600)</u>
Present value of minimum lease payments	\$	<u><u>5,278</u></u>

Note K – Pension and Post Retirement Plan

Multi-employer Pension Plan

The Organization participates in a multi-employer pension plan sponsored by Junior Achievement USA which offers a contributory defined benefit pension plan (the Plan) to its employees. The Plan is administered by the Junior Achievement USA and covers all full-time employees of the Organization, Junior Achievement USA, JA World Wide, Inc. and participating Junior Achievement chapters in the United States. The Plan is accounted for like a multi-employer plan. Benefits are determined based on years of service and salary history. The Plan's assets are invested in various investment funds. The respective participants' employers are required to fund the Plan, as determined necessary by the Junior Achievement USA's Board of Directors, based on an annual actuarial valuation. The Organization makes contributions equal to 16.75% of participants' eligible compensation. The Plan requires that participating members who withdraw from the Plan, remain liable for any previous funding obligations under the Plan. Accordingly, the Organization recognizes, as net pension cost, the required contribution for the period and recognizes, as a liability, any contributions due and unpaid. There is no recognition of the funded status of the Plan in the financial statements of the Organization.

The Organization's pension expense for the years ended June 30, 2016 and 2015 was \$91,150 and \$86,881, respectively.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY For the year ended June 30, 2016

Note K – Pension and Post Retirement Plan (Continued)

Total Plan Information

Junior Achievement USA uses a June 30 measurement date for the Plan. Significant balances, costs and assumptions are:

	<u>2016</u>	<u>2015</u>
Benefit obligations	\$ (81,344,372)	\$ (77,147,902)
Fair Value of Plan assets	55,068,370	54,503,578
Underfunded status	<u>\$ (26,276,002)</u>	<u>\$ (22,644,324)</u>
Accumulated benefit obligation	<u>\$ 74,857,471</u>	<u>\$ 70,170,258</u>

Weighted-average assumptions used to determine benefit obligations at June 30:

	<u>2016</u>	<u>2015</u>
Discount rate	3.25%	4.00%
Rate of compensation increase	4.00%	4.00%

Weighted-average assumptions used to determine benefit costs at June 30:

	<u>2016</u>	<u>2015</u>
Discount rate	3.25%	4.00%
Expected return on plan assets	6.25%	6.25%
Rate of compensation increase	4.00%	4.00%

The estimated long-term rate of return on Plan assets is based primarily on historical returns on Plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2016:

2017	\$ 9,282,336
2018	5,927,476
2019	7,503,691
2020	6,177,944
2021	5,947,280
2022-2026	28,753,237

NOTES TO COMBINING FINANCIAL STATEMENTS

**JUNIOR ACHIEVEMENT OF THE MICHIGAN
GREAT LAKES, INC. AND RELATED ENTITY**
For the year ended June 30, 2016

Note K – Pension and Post Retirement Plan (Continued)

Plan assets are held by Fidelity Investments and investment decisions are made in accordance with the provisions of the Plan's investment agreement by the Plan's investment advisor. The investment agreement permits investment in common stocks, corporate bonds, real estate and cash based on certain target allocation percentages.

The investment objective of the Plan is to construct an investment strategy that:

- Provides a high probability of attaining fully funded status;
- Retains the ability to pay benefits and expense obligations when due;
- Retains a funding cushion for unexpected developments;
- Maximizes the long-term returns that can be achieved within the level of risk that is reasonable and prudent; and
- Provides the Plan Sponsor with the flexibility to reduce future contributions, or increase future benefits, in a way that enables the Plan Sponsor to continue to provide competitive retirement benefits to its employees.

The target asset allocation percentage for June 30, 2016 are:

Equity securities	Not to exceed	65.00%
Corporate debt securities	Not to exceed	48.00%
Real estate	Not to exceed	6.00%
Cash and cash equivalents	Not to exceed	2.00%

Plan assets are rebalanced quarterly. At June 30 Plan assets by category are as follows:

	2016	2015
Equity mutual funds	50.90%	55.00%
Fixed income mutual funds	42.60%	40.00%
Real estate security mutual funds	5.40%	5.00%
Cash	1.10%	0.00%
	100.00%	100.00%

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note K – Pension and Post Retirement Plan (Continued)

Information on Organizations Participating in the Plan

The risks to the Organization of participating in this multiemployer pension plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Organization chooses to stop participating in some of its multiemployer plans, the Organization may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Organization's participation in this plan for the annual period ended June 30, 2016 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number. The Plan's funded status available in 2016 and 2015 is for years ended June 30, 2016 and 2015, respectively. There have been no significant changes that affect the comparability of the 2016 and 2015 contributions.

Pension Fund	EIN/Pension Plan Number	Funded Status		Contributions by Organization	
		2016	2015	2016	2015
Retirement plan for Employees of Junior Achievement USA	13-1635270 PN 333	68.00%	71.00%	\$ 91,150	\$ 86,881
			Total Contributions	\$ 91,150	\$ 86,881

The Organization was listed in its plan's Form 5500 as providing more than 5 percent of the total contributions for the June 30, 2016 and 2015 plan years.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note L – Health and Welfare Benefits Trust and Postretirement Benefits Plan

Health and Welfare Benefits Trust

The Organization participates in a multiemployer self-funded medical, dental and other benefits plan covering full-time employees of the Organization and their beneficiaries and covered dependents. The plan is accounted for like a multiemployer plan. Premiums are paid into the Health and Welfare Plan for each participant by the participating employers. Employees of the Organization, Junior Achievement USA, JA Worldwide, Inc. and employees of Junior Achievement USA chapters can participate in the Health and Welfare Plan. All the assets and liabilities of the Health and Welfare Plan are held in the Junior Achievement USA Health and Welfare Benefits Trust (Benefits Trust). Accordingly, no balances or transactions of the Benefits Trust are recorded in the financial statements of the Organization.

The following represents summarized financial information pertaining to the Benefits Trust as of and for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Assets	\$ 6,492,137	\$ 5,678,025
Liabilities	226,110	211,796
Net Assets	<u>\$ 6,266,027</u>	<u>\$ 5,466,229</u>
Additions to net assets	\$ 7,143,253	\$ 6,889,679
Deductions from net assets	6,343,455	6,951,534
Change in Net Assets	799,798	(61,855)
Net Assets, Beginning of Year	<u>5,466,229</u>	<u>5,528,084</u>
Net Assets, End of Year	<u>\$ 6,266,027</u>	<u>\$ 5,466,229</u>

In addition to the summarized financial information presented above, the Benefits Trust also reports in the notes to the financial statements, claims payable of \$222,839 and \$209,609, respectively, and claims incurred but not reported of \$298,789 and \$370,387, respectively. The obligation for claims incurred but not reported is not recorded in the Benefits Trust's statements of net assets available for benefits.

Postretirement Benefits Plan

The Health and Welfare Plan, discussed above, also offers health care benefits to retired personnel of the participating employees. This creates an implicit rate subsidy, which is considered to be a postretirement benefit. Management of the Organization does not believe the implicit rate subsidy amount to be material to the Organization, especially since the Plan is a multiemployer plan. Accordingly, no balances or transactions of the Postretirement Benefits Plan are recorded in the financial statements of the Organization.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY For the year ended June 30, 2016

Note L – Health and Welfare Benefits Trust and Postretirement Benefits Plan (Continued)

Total Postretirement Benefits Plan Information

Junior Achievement USA uses a June 30 measurement date is used for the Postretirement Plan. Significant balances, costs and assumptions are:

	2016	2015
Benefit obligation	\$ 8,237,490	\$ 6,518,453
Fair value of Plan assets	-	-
Underfunded status	\$ (8,237,490)	\$ (6,518,453)
Accumulated benefit obligation	\$ (8,237,490)	\$ (6,518,453)

Weighted-average assumptions used to determine benefit obligations at June 30, 2016 and 2015:

	2016	2015
Discount rate	3.25%	4.00%
Rate of compensation increase	4.00%	4.00%

Weighted-average assumptions used to determine benefit costs at June 30, 2016 and 2015:

	2016	2015
Discount rate	4.00%	3.75%
Rate of compensation increase	4.00%	4.00%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2016:

2017	\$ 323,381
2018	347,799
2019	378,015
2020	378,303
2021	390,034
2022-2026	2,022,245

The Organization's premium expense for the Postretirement Benefits Plan for the years ended June 30, 2016 and 2015 was \$86,138 and \$74,694, respectively.

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNIOR ACHIEVEMENT OF THE MICHIGAN GREAT LAKES, INC. AND RELATED ENTITY

For the year ended June 30, 2016

Note M – Endowment Net Assets

The Organization has adopted the accounting and disclosure guidance provided by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). As such, the Organization has adopted the required provisions of the Act.

Endowment net assets consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Muskegon Community Foundation Perpetual Endowment Fund	\$ -	\$ 12,823	\$ 17,200	\$ 30,023
Capital Region Community Foundation Perpetual Endowment Fund	-	10,967	28,682	39,649
	<u>\$ -</u>	<u>\$ 23,790</u>	<u>\$ 45,882</u>	<u>\$ 69,672</u>

The management of the Organization has interpreted current law as requiring the preservation of the fair value of the original gift to 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 to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in the manner consistent with the policies of the endowment fund.

NOTES TO COMBINING FINANCIAL STATEMENTS

**JUNIOR ACHIEVEMENT OF THE MICHIGAN
GREAT LAKES, INC. AND RELATED ENTITY**
For the year ended June 30, 2016

Note M – Endowment Net Assets (Continued)

Changes in endowment net assets for the year ended June 30, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beneficial Interest in Perpetual Endowment Fund July 1, 2015	\$ -	\$ 22,460	\$ 45,882	\$ 68,342
Investment income	-	1,023	-	1,023
Unrealized/realized gain on investments	-	820	-	820
Investment fees	-	(513)	-	(513)
Unrealized gain on revaluation of beneficial interest	-	1,330	-	1,330
Beneficial Interest in Perpetual Endowment Fund June 30, 2016	<u>\$ -</u>	<u>\$ 23,790</u>	<u>\$ 45,882</u>	<u>\$ 69,672</u>

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 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Organization to retain. No such deficiencies existed that resulted in the invasion of the principal as of June 30, 2016.