



United Way of Southwest Michigan

Audited Financial Report

December 31, 2022
(with comparative totals for 2021)



St. Joseph, MI

UNITED WAY OF SOUTHWEST MICHIGAN
ST. JOSEPH, MICHIGAN
DECEMBER 31, 2022

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 19



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
United Way of Southwest Michigan
St. Joseph, Michigan

Opinion

We have audited the accompanying financial statements of United Way of Southwest Michigan (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Way of Southwest Michigan as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of United Way of Southwest Michigan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about United Way of Southwest Michigan's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONCLUDED

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 United Way of Southwest Michigan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about United Way of Southwest Michigan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited United Way of Southwest Michigan's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Respectfully submitted,



Certified Public Accountants

St. Joseph, Michigan
May 26, 2023

UNITED WAY OF SOUTHWEST MICHIGAN
STATEMENT OF FINANCIAL POSITION
December 31, 2022
(with comparative totals for 2021)

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 828,978	\$ 1,422,598
Certificates of deposit (≥ 90 days)	538,865	648,532
Pledges receivable, less allowance for uncollectible accounts of \$181,282 for 2022 and \$162,269 for 2021	2,840,092	3,083,111
Investments	1,400,610	1,710,096
Other receivables	489,372	218,947
Prepaid expenses	47,721	37,907
Other assets	842	282
Total Current Assets	\$ 6,146,480	\$ 7,121,473
Fixed assets/right of use asset, net of accumulated depreciation/amortization of \$402,285 for 2022 and \$363,306 for 2021	700,719	736,117
Other Assets		
Beneficial interest in assets held by community foundations	191,715	246,652
Total Assets	\$ 7,038,914	\$ 8,104,242
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 67,598	\$ 70,820
Allocations and other pledges payable	1,462,750	1,206,750
Due to designated agencies	79,312	88,639
Other accruals	40,909	55,338
Financing lease liability - current portion	5,332	7,362
Total Current Liabilities	\$ 1,655,901	\$ 1,428,909
Noncurrent Liabilities		
Financing lease liability - noncurrent portion	-	5,332
Total Liabilities	\$ 1,655,901	\$ 1,434,241
Net Assets		
Without donor restrictions	\$ 1,542,432	\$ 2,261,818
With donor restrictions	3,840,581	4,408,183
Total Net Assets	\$ 5,383,013	\$ 6,670,001
Total Liabilities and Net Assets	\$ 7,038,914	\$ 8,104,242

The Notes to Financial Statements are an integral part of this statement.

UNITED WAY OF SOUTHWEST MICHIGAN
STATEMENT OF ACTIVITIES
Year Ended December 31, 2022
(with comparative totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022	2021
Public Support and Revenues				
Public Support				
Campaign and related contributions of financial assets	\$ -	\$ 3,890,691	\$ 3,890,691	\$ 4,116,226
Less donor designations	-	(65,447)	(65,447)	(77,128)
Southwest Michigan Cares contributions of financial assets	-	-	-	109,302
Other contributions of financial assets	191,076	-	191,076	399,330
Grants, other	-	766,151	766,151	387,532
Total Public Support	<u>\$ 191,076</u>	<u>\$ 4,591,395</u>	<u>\$ 4,782,471</u>	<u>\$ 4,935,262</u>
Revenues				
Programs	\$ 499,615	\$ -	\$ 499,615	\$ 125,325
Investment income, net	(278,685)	-	(278,685)	103,817
Donor designations fees	-	6,462	6,462	8,860
Change in beneficial interest in assets held by community foundations	(54,937)	-	(54,937)	24,972
Loss on disposal of fixed assets	(64)	-	(64)	(123)
Total Revenues	<u>\$ 165,929</u>	<u>\$ 6,462</u>	<u>\$ 172,391</u>	<u>\$ 262,851</u>
Total Support and Revenues	<u>\$ 357,005</u>	<u>\$ 4,597,857</u>	<u>\$ 4,954,862</u>	<u>\$ 5,198,113</u>
Expenses				
Program Services	\$ 4,989,137	\$ -	\$ 4,989,137	\$ 4,132,278
Supporting Services				
Administrative	709,173	-	709,173	709,872
Fundraising	483,213	-	483,213	467,590
Communication and marketing	60,327	-	60,327	71,342
Total Expenses	<u>\$ 6,241,850</u>	<u>\$ -</u>	<u>\$ 6,241,850</u>	<u>\$ 5,381,082</u>
Changes in net assets before other changes	\$ (5,884,845)	\$ 4,597,857	\$ (1,286,988)	\$ (182,969)
Other Changes in Net Assets				
Net assets released from restriction	5,165,459	(5,165,459)	-	-
Change in Net Assets	<u>\$ (719,386)</u>	<u>\$ (567,602)</u>	<u>\$ (1,286,988)</u>	<u>\$ (182,969)</u>
Net Assets, Beginning of Year	<u>2,261,818</u>	<u>4,408,183</u>	<u>6,670,001</u>	<u>6,852,970</u>
Net Assets, End of Year	<u>\$ 1,542,432</u>	<u>\$ 3,840,581</u>	<u>\$ 5,383,013</u>	<u>\$ 6,670,001</u>

The Notes to Financial Statements are an integral part of this statement.

UNITED WAY OF SOUTHWEST MICHIGAN
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022
(with comparative totals for 2021)

	Supporting Services				Total	2022	2021
	Program Services	Administrative	Fundraising	Communication and Marketing			
Salaries	\$ 657,091	\$ 437,806	\$ 307,661	\$ -	\$ 745,467	\$ 1,402,558	\$ 1,399,974
Employee health and retirement benefits	78,184	55,741	36,423	-	92,164	170,348	172,224
Payroll taxes and other employee costs	50,661	33,503	23,837	-	57,340	108,001	109,107
Allocations and grants	3,530,775	-	-	-	-	3,530,775	2,703,693
Southwest Michigan Cares expenses	80,817	-	-	-	-	80,817	98,767
Supplies	319,435	2,829	3,138	12	5,979	325,414	376,702
Telephone	1,863	1,966	1,345	-	3,311	5,174	5,265
Postage	1,061	469	3,122	-	3,591	4,652	6,799
Occupancy	16,590	20,472	19,739	791	41,002	57,592	54,245
Equipment	23,247	11,422	14,238	1,996	27,656	50,903	43,234
Local travel	8,904	2,072	2,363	-	4,435	13,339	6,188
Volunteer and staff development/training	6,706	12,730	1,231	2,198	16,159	22,865	9,869
Marketing and public relations	48,229	7,022	25,456	48,519	80,997	129,226	149,399
Organizational dues	31,060	29,622	20,710	985	51,317	82,377	94,272
Professional fees	118,024	75,899	11,894	5,826	93,619	211,643	100,646
Interest	337	356	244	-	600	937	1,633
Depreciation/amortization	16,153	17,264	11,812	-	29,076	45,229	49,065
Total Expenses	<u>\$ 4,989,137</u>	<u>\$ 709,173</u>	<u>\$ 483,213</u>	<u>\$ 60,327</u>	<u>\$ 1,252,713</u>	<u>\$ 6,241,850</u>	<u>\$ 5,381,082</u>

The Notes to Financial Statements are an integral part of this statement.

UNITED WAY OF SOUTHWEST MICHIGAN
STATEMENT OF CASH FLOWS
Year Ended December 31, 2022
(with comparative totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (1,346,231)	\$ (182,969)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation/amortization	45,229	49,065
Unrealized (gain)/loss on investments	311,484	(65,548)
Realized (gain)/loss on investments	399	(246)
Loss on disposal of capital assets	64	123
Change in beneficial interest	54,937	(24,972)
Changes in assets and liabilities:		
Pledges receivable, net	243,019	24,687
Other receivables	(211,182)	(180,010)
Prepaid expenses	(9,814)	2,638
Other assets	(560)	702
Accounts payable	(3,222)	46,701
Allocations and other pledges payable	256,000	(52,917)
Due to designated agencies	(9,327)	(5,517)
Other accruals	(14,429)	23,238
Net cash flows from operating activities	<u>\$ (683,633)</u>	<u>\$ (365,025)</u>
Cash Flows From Investing Activities		
Purchase of fixed assets	\$ (9,895)	\$ (3,657)
Proceeds from sale of investments	1,042,844	128,650
Purchase of investments	(1,045,241)	(130,120)
Change in certificates of deposit (≥ 90 days)	109,667	324,758
Net cash flows from investing activities	<u>\$ 97,375</u>	<u>\$ 319,631</u>
Cash Flows From Financing Activities		
Principal payments on financing lease liability	\$ (7,362)	\$ (6,665)
Net cash flows from financing activities	<u>\$ (7,362)</u>	<u>\$ (6,665)</u>
Net change in cash and cash equivalents	\$ (593,620)	\$ (52,059)
Cash and Cash Equivalents - Beginning of Year	<u>1,422,598</u>	<u>1,474,657</u>
Cash and Cash Equivalents - End of Year	<u>\$ 828,978</u>	<u>\$ 1,422,598</u>
Supplemental data for noncash investing and financing activities:		
Interest payments	<u>\$ 937</u>	<u>\$ 1,633</u>

The Notes to Financial Statements are an integral part of this statement.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The mission of United Way of Southwest Michigan (“United Way”) is to improve lives by mobilizing the caring power of our communities. Through generous giving, advocating and volunteering of individuals, family and corporate partners, United Way is able to create long-term sustainable impact in the areas of Education, Income, Health and Basic Needs.

Financial Statement Presentation

The financial statements of United Way are prepared on the accrual basis of accounting.

United Way prepares its financial statements in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, which set standards for reporting on financial statements of nonprofit organizations. ASC 958-205 requires the classification and presentation of net assets in two categories: net assets with donor restrictions, and net assets without donor restrictions.

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of United Way. These net assets may be used at the discretion of United Way’s management and Board of Directors (the “Board”).

Net assets with donor restrictions are subject to stipulations by donors and/or grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of United Way or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenue Recognition

Contributions and Nonexchange Transactions:

United Way records contributions, including promises to give, when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the assets or at the time an unconditional promise to give is made.

Contributions received are considered to be available for current use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support that increases net assets with donor restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restriction. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are received.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Contract Services:

United Way generates contract revenue from fees for providing services in accordance with contracts made with several other nonprofit organizations. United Way recognizes revenue from these contracts on a ratable basis over the contract term beginning on the date service commences. Such income is reported as “Program” in the Revenues section of the Statement of Activities. The contract terms generally are on an annual basis that matches the reporting period and are billed in installments. Any amounts that are earned but not yet collected by year-end are reported in “Other receivables.” All revenue is recognized at a point in time.

Cash Equivalents

United Way considers all highly liquid investments purchased with an original maturity of ninety (90) days or less to be cash equivalents.

Pledges Receivable

United Way uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on management’s analysis of specific promises made. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be received after one year are recorded at net present value of their estimated future cash flows. The discounts on those amounts are computed using the risk-free interest rates applicable to the years in which the pledges are received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until the conditions are substantially met. For each annual campaign, any remaining uncollectible pledge balances are written off after two years.

Fixed Assets

United Way capitalizes all expenditures for equipment and furniture in excess of \$1,000. In addition, donated equipment is recorded at estimated fair market value at date of receipt. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method.

Donor Designations

Annual campaign gifts in which United Way agrees to transfer the gift to another beneficiary as designated by the donor constitute agency transactions and are deducted from gross campaign results to arrive at contribution revenue. In accordance with United Way Worldwide membership requirements, these designations are presented as part of gross campaign contributions and gross allocations to agencies on the Statement of Activities, but are then deducted to arrive at United Way’s actual revenue and expense under accounting principles generally accepted in the United States of America (“GAAP”).

UNITED WAY OF SOUTHWEST MICHIGAN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2022

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Tax-Exempt Organization

United Way is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and is not considered a private foundation. United Way files tax returns in the U.S. federal jurisdiction. As of December 31, 2022, there are no material unrecognized/derecognized tax benefits or tax penalties or interest. United Way is no longer subject to U.S. federal income tax examinations by tax authorities for the three previous fiscal years.

Investments

Investments are carried at fair value, which is determined based on quoted market prices. United Way has authorized Horizon Bank to manage the investment activity of United Way. Horizon Bank charged investment management fees of \$12,925 for the year ended December 31, 2022. These amounts are netted against investment income in the Statement of Activities.

Expense Allocations to Program and Supporting Activities

United Way has allocated a variety of expenses to program services (allocations to agencies and community impact) and supporting services (administrative, fundraising, and communication and marketing). These allocated expenses include salaries, health and retirement benefits, payroll taxes and other employee costs, occupancy, and other costs. Allocations are determined based upon time spent, actual usage, and square footage as applicable.

Significant expenses that were allocated include the following:

Expense	Method of Allocation
Salaries; Employee benefits; Payroll taxes; Other employee costs	Time and effort
Supplies; Occupancy; Equipment; Volunteer and staff development/training; Marketing and public relations; Organizational dues; Professional fees; Depreciation	Estimated actual usage

All other allocated expenses are allocated based on time and effort or estimated actual usage.

Comparative Totals for 2021

The financial information for the year ended December 31, 2021, presented for comparative purposes, is not intended to be a complete financial statement presentation.

Estimates

The process of preparing financial statements in conformity with GAAP requires the use of management estimates and assumptions regarding certain types of assets, liabilities, support, revenues and expenses.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Concentrations

One donor source accounted for approximately 35% of total pledges for 2022.

New Accounting Pronouncements

On August 18, 2016, FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958), *Presentation and Disclosure of Financial Statements of Not-for-Profit Entities* for Contributed Nonfinancial Assets. The update improves GAAP by increasing the transparency of contributed nonfinancial assets for not-for-profit (“NFP”) entities through enhancements to presentation and disclosure. The amendments address certain stakeholders’ concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFP. The ASU has been applied retroactively to all periods presented.

United Way accounts for leases in accordance with ASU No. 2016-02, *Leases (Topic 842)*. Leases are evaluated using the criteria outlined in FASB ASC 842 to determine whether they will be classified as operating leases or finance leases. Management determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. Management determines if an arrangement conveys the right to use an identified asset and whether United Way obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. United Way recognizes a lease liability and right of use (“ROU”) asset at the commencement date of the lease.

Beginning January 1, 2022, lease ROU assets and related current and long-term portions of lease liabilities have been presented in the balance sheet.

Lease Liabilities

A lease liability is measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable; otherwise, United Way uses its incremental borrowing rate based on the information available at the commencement date of the lease. The incremental borrowing rate for a lease is the rate of interest United Way would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment and geographic location. United Way determines its incremental borrowing rates by starting with the interest rates on recent borrowings and other observable market rates and adjusting those rates to reflect differences in the amount of collateral and the payment terms of the leases.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED

ROU Assets

A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the lease term. Finance lease ROU assets are amortized on a straight-line basis over the shorter of the lease term or the remaining useful life of the asset.

United Way has elected for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but greater than 1 month at lease commencement, and do not include an option to purchase the underlying asset that is reasonably certain to exercise. United Way will recognize lease costs associated with its short-term leases on a straight-line basis over the lease term.

NOTE 2. LIQUIDITY AND AVAILABILITY

As of December 31, 2022, United Way has working capital and average days of cash on hand as follows:

Working Capital	4,431,336
Days of Cash on Hand	49

The table below represents financial assets available for general expenditures within one year at December 31, 2022:

Certificates of deposit	\$ 538,865
Assets limited to use:	
Board designated	1,592,325
Donor restricted - cash	828,978
Donor restricted - pledges receivable, net	<u>2,840,092</u>
Total	<u><u>\$5,800,260</u></u>

United Way has certain board designated and donor restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 3. BOARD DESIGNATED NET ASSETS AND OPERATING RESERVE

Included in net assets without donor restrictions are assets that have been board designated for the following at December 31, 2022:

Investments	\$ 1,400,610
Beneficial interest in assets held by community foundations	<u>191,715</u>
	<u>\$ 1,592,325</u>

United Way has adopted an operating reserve policy that requires the Board to set aside a portion of available unrestricted net assets at the end of each fiscal year to fund a Board-designated operating reserve. The policy also establishes a target balance of the reserve as follows:

- A. Target balance for *UWSM Administration Budget* – reserve is net assets of 50% (6 months) of prior fiscal year expenses.
- B. Target balance for *Community Impact – Funded Partners* – reserve is net assets of 25% (3 months) of prior fiscal year expenses.
- C. Target balance for *Community Impact – Core Funding* – reserve is net assets of 25% (3 months) of prior fiscal year expenses.

The current amount of Board-designated investments exceeds the targeted operating reserve.

Additional designations have been determined by the Board and represent amounts that are to be used for the specified purpose. The designations for the Impact Fund for 2022 were designated on January 1, 2022, and represent amounts approved to be distributed to grantee agencies at the discretion of management.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31, 2022:

Monies collected for pledges	\$ 1,221,186
Pledges receivable, net	2,577,542
Less: Due to designated agencies	(79,312)
Other cash with donor restrictions:	
Southwest Michigan Cares	59,354
Disaster relief	1,136
Emergency relief	758
Hull Park project - Gast	32,217
Annual Celebration	2,005
SSS - carried forward	4,491
Watervliet Summer Literacy project	7,000
Health Endowment Fund	14,204
	<u>\$ 3,840,581</u>

NOTE 5. PLEDGES RECEIVABLE

Pledges receivable consist of campaign and community impact initiative contributions. The receivable consisted of the following as of December 31, 2022:

Receivable in less than one year - pledges	\$ 3,021,374
Less: allowance for uncollectible pledges	<u>(181,282)</u>
Net unconditional promises to give at December 31	<u>\$ 2,840,092</u>

Promises to give are reflected in the Statement of Financial Position at December 31, 2022, as follows:

Pledges receivable (current)	<u>\$ 2,840,092</u>
------------------------------	---------------------

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 6. FIXED ASSETS

The net costs of fixed assets are summarized as follows as of December 31, 2022:

	Estimated asset lives	
Building	39 years	\$ 423,686
Furniture and equipment	3 - 10 years	203,584
Building improvements	5 - 30 years	452,473
Vehicles	7 years	18,136
Right of use asset	2 years	5,125
Subtotal		\$ 1,103,004
Accumulated depreciation/amortization		(402,285)
Total		\$ 700,719

Depreciation and amortization expense for the year ended December 31, 2022 was \$45,229.

NOTE 7. FAIR VALUE MEASUREMENTS

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Basis of Fair Value Measurement:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As required by FASB ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 7. FAIR VALUE MEASUREMENTS, CONCLUDED

United Way utilized the market approach to approximate its value of Level 3 investments. Given a pool of assets whose total is known, United Way can approximate its share of the total pooled investment using rates of return applied to known contribution amounts. United Way used fund statements provided by Berrien Community Foundation and Michigan Gateway Community Foundation (together, the “Community Foundations”) that include detail of contributions and withdrawals to adjust the fair value of its assets. United Way is very familiar with the Community Foundations and their investment bases which include a variety of investments including domestic (small and large cap) and global equities, fixed income securities, hedge funds, and other investments. The investments are classified as Level 3 since the fund agreements provide for the irrevocable transfer of assets to the Community Foundations.

The following table presents United Way’s fair value hierarchy for United Way’s investment assets at fair value, as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds	\$1,400,610	\$ -	\$ -	\$1,400,610
Certificates of deposit (≥90 days)	-	538,865	-	538,865
Beneficial interest in assets held by community foundations	-	-	191,715	191,715
	<u>\$1,400,610</u>	<u>\$ 538,865</u>	<u>\$ 191,715</u>	<u>\$2,131,190</u>

NOTE 8. ALLOCATIONS AND OTHER PLEDGES PAYABLE

In June 2022, United Way made unconditional pledges to agency programs to be paid for the period beginning July 1, 2022 through June 30, 2023. Additionally, United Way made other pledge commitments to non-agency programs. Accordingly, as of December 31, 2022, a liability of \$1,462,750 exists, representing unconditional amounts pledged, and not yet paid as of that date.

NOTE 9. CONCENTRATIONS OF CREDIT RISK

United Way maintains its cash balances at several financial institutions, and deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Additionally, United Way maintains some idle cash in a sweep account that is collateralized by AAA rated U.S. Treasury securities. United Way’s uninsured and uncollateralized cash and certificates of deposit balances was \$255,114 as of December 31, 2022.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 10. RETIREMENT PLAN

United Way sponsors a defined contribution retirement plan, as described in Internal Revenue Code Section 403(b). The plan covers substantially all of its employees. Contributions are at the discretion of the Board. Pension expenses amounted to \$51,602 for the year ended December 31, 2022.

NOTE 11. BENEFICIAL INTERESTS IN ASSETS HELD BY COMMUNITY FOUNDATIONS

United Way has established charitable agency endowed funds with both Berrien Community Foundation and Michigan Gateway Community Foundation (together, the “Community Foundations”). The funds are designated to promote and enhance the program activities in the area served by United Way. The established funds will provide a mechanism for receiving and maintaining gifts to continue the growth of the endowment funds and their earnings.

United Way is following FASB ASC “*Fair Value Measurements and Disclosures*”. This statement establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer these assets, the return on investment of these assets or both to another entity that is specified by the donor.

The statement specifically requires that if a not-for-profit organization (“NPO”) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the NPO must account for the transfer of such assets as a beneficial interest in the funds held by the community foundations. The Community Foundations refer to such funds as agency funds.

The Community Foundations maintain variance power and legal ownership of agency endowed and non-endowed funds and as such continues to report the funds as assets of the Community Foundations. However, in accordance with the statement, an asset has been established for the fair value of the funds, which is generally equivalent to the present value of the future payment expected to be received by United Way.

The Community Foundations also hold donor advised endowment funds contributed by others in United Way’s name. However, these funds are assets of the Community Foundations and, as such, are not included in the financial statements of United Way. The fair value of those funds is \$60,775 as of December 31, 2022.

United Way has recorded additions and reductions to the agency endowment and non-endowment funds through revenues.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 11. BENEFICIAL INTERESTS IN ASSETS HELD BY COMMUNITY FOUNDATIONS, CONCLUDED

The following table summarizes the activity in the funds during the year ended December 31, 2022:

	Michigan Gateway Community Foundation	Berrien Community Foundation	Total
Balance at January 1, 2022	\$ 202,667	\$ 43,985	\$ 246,652
Change in beneficial interest	(38,328)	(16,609)	(54,937)
Balance at December 31, 2022	\$ 164,339	\$ 27,376	\$ 191,715

NOTE 12. ENDOWMENTS

United Way’s endowments consist of board-designated endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the State Prudent Management Investment Fiduciary Act (SPMIFA) as requiring realized and unrealized gains of restricted net assets (if any) to be retained in a restricted net asset classification until appropriated by the Board for expenditure unless explicitly stated otherwise in the gift instrument. In addition, the Board has interpreted SPMIFA to appropriate as much of net appreciation of permanently restricted net assets (if any) as is prudent considering the duration and preservation of the endowment fund, the purposes of United Way and endowment fund, general economic conditions, effect of inflation or deflation, expected total return on its investments, and the investment policy of United Way.

United Way has adopted and implemented investment and spending policies for endowment assets that attempt to provide a stream of funding to support a portion of operations under the specified terms of the underlying endowment agreements, while seeking to preserve the endowment assets in perpetuity. In establishing this policy, United Way considered the long term expected return on its endowments.

Asset allocation policies at Berrien Community Foundation (“BCF”) and Michigan Gateway Community Foundation (“MGCF”) include the following asset classes: equities, fixed income securities, real estate and other diversifying investments as defined.

All such endowed funds are presented in the statement of financial position as board designated net assets as of December 31, 2022.

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 12. ENDOWMENTS, CONCLUDED

The following is a summary of endowment net asset composition by type of fund at December 31, 2022:

	Without Donor Restrictions
Beneficial interest in assets held by community foundations	\$ 191,715
Total	\$ 191,715

The following is a summary of the changes in endowment net assets for the year ended December 31, 2022:

	Without Donor Restrictions
Beginning balance	\$ 246,652
Change in beneficial interest in assets held by community foundation	(54,937)
Ending balance	\$ 191,715

NOTE 13. LEASES

United Way has entered into two lease agreements that are considered financing leases under FASB 840. The gross amount of assets capitalized under these agreements is \$32,559, all of which is included in the Furniture and Equipment category of fixed assets.

The lease obligation is comprised of the following, at December 31, 2022:

Lease cost	2022	2021
Financing lease costs	\$ 5,125	\$ -

United Way has decided not to present the lease liability and right of use asset at present value as the difference was not material. The lease liability and right of use asset will be carried at cost.

Maturities of the financing lease liability was as follows as of December 31:

	Financing lease
2023	\$ 5,332
Present value of lease liability	\$ 5,332

UNITED WAY OF SOUTHWEST MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 14. CARES EMPLOYEE RETENTION CREDIT

The CARES Act provides an employee retention credit (“CARES Employee Retention Credit”), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter. United Way qualifies for the tax credit under the CARES Act and expects to continue to receive additional tax credits under the additional relief provisions for qualified wages through December 31, 2022. During the fiscal year ended December 31, 2022, United Way recorded \$416,570 related to the CARES Employee Retention credit in “Program Revenue” on United Way’s Statement of Activities. As of December 31, 2022, United Way has a \$416,570 receivable balance from the United States government related to the CARES Act, which is recorded in "Other Receivables" on United Way's Statement of Financial Position.

NOTE 15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 26, 2023, which is the date the financial statements were ready to be issued. No events or transactions occurred during this period which require recognition of disclosure in the financial statements.