

**AREA AGENCY ON AGING OF  
WESTERN MICHIGAN, INC.**

*FINANCIAL STATEMENTS*

*Years Ended September 30, 2016 and 2015*

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# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## PURPOSE AND BOARD OF DIRECTORS

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September 30, 2016

### PURPOSE

Area Agency on Aging of Western Michigan, Inc.'s purpose is to provide older persons and persons with disabilities in social and economic need with services designed to maintain independence and dignity through planning resource use, funding and coordinating supportive services, advocating on behalf of older adults, and educating communities about aging issues.

### BOARD OF DIRECTORS

#### Executive Committee

Chairperson  
Vice Chairperson  
Secretary  
Treasurer  
Representative of Advisory Council  
Member at Large

Arthur Adleman  
Marilyn Burns  
Richard Karns  
Marilyn Snell  
Robert Sundholm  
Carol Hennessy

Allegan  
Ionia  
Kent  
Lake  
Mason  
Mecosta  
Montcalm  
Newaygo  
Osceola  
City of Grand Rapids

Don Black, Stuart Peet  
Larry Tiejema, Jane Morris  
Carol Hennessy, Nancy Nielsen  
Marilyn Burns, Colleen Carrington-Atkins  
Bill Carpenter, Patsy Hagerman  
Arthur Adleman, Bill Routley  
John Johansen, Ralph Harrington  
Philip Deur, Marilyn Snell  
Larry Emig, Richard Karns  
David Allen, Esther Van Hammen

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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Board of Directors  
Area Agency on Aging of Western Michigan, Inc.  
Grand Rapids, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of Area Agency on Aging of Western Michigan, Inc., which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Area Agency on Aging of Western Michigan, Inc. as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017, on our consideration of Area Agency on Aging of Western Michigan, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Area Agency on Aging of Western Michigan, Inc.'s internal control over financial reporting and compliance.



June 26, 2017  
Grand Rapids, Michigan

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**FINANCIAL STATEMENTS**

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AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,844,632	\$ 8,852,775
Certificates of deposit	5,403,983	1,601,418
Accounts receivable	318,127	330,330
Grants receivable	3,110,644	2,305,628
Prepaid expenses	121,738	40,492
Property and equipment	<u>3,109,262</u>	<u>3,209,855</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 16,908,386</u></u>	<u><u>\$ 16,340,498</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,669,472	\$ 3,897,841
Accrued liabilities	<u>454,664</u>	<u>607,621</u>
<b>TOTAL LIABILITIES</b>	4,124,136	4,505,462
<b>Net Assets</b>		
Unrestricted	12,688,402	11,783,280
Temporarily restricted	<u>95,848</u>	<u>51,756</u>
<b>TOTAL NET ASSETS</b>	<u><u>12,784,250</u></u>	<u><u>11,835,036</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 16,908,386</u></u>	<u><u>\$ 16,340,498</u></u>

See accompanying notes

# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Public Support and Revenue</b>			
Contributions	\$ 5,153	\$ 119,017	\$ 124,170
Federal Medicaid waiver contract	23,597,654	-	23,597,654
Federal HCFA contract	11,426	-	11,426
Federal grants	4,838,373	-	4,838,373
State grants	2,899,208	-	2,899,208
Local sources	9,959,770	-	9,959,770
Program	111,513	-	111,513
Net assets released from restrictions			
Expiration of time restrictions	35,000	(35,000)	-
Satisfaction of donor requirements	39,925	(39,925)	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<b>41,498,022</b>	<b>44,092</b>	<b>41,542,114</b>
<b>Expenses</b>			
Program services	38,750,251	-	38,750,251
General and administrative	1,842,649	-	1,842,649
<b>TOTAL EXPENSES</b>	<b>40,592,900</b>	<b>-</b>	<b>40,592,900</b>
<b>CHANGE IN NET ASSETS</b>	<b>905,122</b>	<b>44,092</b>	<b>949,214</b>
<b>Net Assets at Beginning of Year</b>	<b>11,783,280</b>	<b>51,756</b>	<b>11,835,036</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 12,688,402</b>	<b>\$ 95,848</b>	<b>\$ 12,784,250</b>

See accompanying notes



# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Public Support and Revenue</b>			
Contributions	\$ 3,229	\$ 59,181	\$ 62,410
Federal Medicaid waiver contract	23,470,461	-	23,470,461
Federal HCFA contract	18,613	-	18,613
Federal grants	4,627,232	-	4,627,232
State grants	3,030,170	-	3,030,170
Local sources	8,796,240	-	8,796,240
Program	106,759	-	106,759
Net assets released from restrictions			
Expiration of time restrictions	35,000	(35,000)	-
Satisfaction of donor requirements	33,303	(33,303)	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<b>40,121,007</b>	<b>(9,122)</b>	<b>40,111,885</b>
<b>Expenses</b>			
Program services	35,187,762	-	35,187,762
General and administrative	1,824,615	-	1,824,615
<b>TOTAL EXPENSES</b>	<b>37,012,377</b>	<b>-</b>	<b>37,012,377</b>
<b>CHANGE IN NET ASSETS</b>	<b>3,108,630</b>	<b>(9,122)</b>	<b>3,099,508</b>
<b>Net Assets at Beginning of Year</b>	<b>8,674,650</b>	<b>60,878</b>	<b>8,735,528</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 11,783,280</b>	<b>\$ 51,756</b>	<b>\$ 11,835,036</b>

See accompanying notes

# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2016

	<u>Program Expenses</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 4,107,147	\$ 1,084,843	\$ 5,191,990
Employee benefits	1,478,932	370,224	1,849,156
Subcontractors	32,123,602	-	32,123,602
Occupancy	149,883	127,581	277,464
Office supplies	181,119	86,986	268,105
Marketing and promotion	19,070	31,889	50,959
Travel	178,570	34,874	213,444
Professional fees	388,841	63,905	452,746
Equipment	8,091	2,400	10,491
Telephone	93,205	19,788	112,993
Advocacy	-	20,159	20,159
Advocacy for Senior Issues	21,791	-	21,791
<b>TOTAL EXPENSES</b>	<b><u>\$ 38,750,251</u></b>	<b><u>\$ 1,842,649</u></b>	<b><u>\$ 40,592,900</u></b>

See accompanying notes

# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2015

	<u>Program Expenses</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 3,841,013	\$ 1,015,467	\$ 4,856,480
Employee benefits	1,492,403	390,603	1,883,006
Subcontractors	28,944,945	3,500	28,948,445
Occupancy	181,053	152,020	333,073
Office supplies	204,787	79,538	284,325
Marketing and promotion	11,111	38,650	49,761
Travel	191,912	41,576	233,488
Professional fees	213,016	66,254	279,270
Telephone	87,696	19,848	107,544
Advocacy	-	17,159	17,159
Advocacy for Senior Issues	19,826	-	19,826
<b>TOTAL EXPENSES</b>	<b><u>\$ 35,187,762</u></b>	<b><u>\$ 1,824,615</u></b>	<b><u>\$ 37,012,377</u></b>

See accompanying notes

# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## STATEMENTS OF CASH FLOWS

Years Ended September 30, 2016 and 2015

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 949,214	\$ 3,099,508
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation expense	107,308	106,154
Changes in operating assets and liabilities		
Accounts receivable	12,203	(85,845)
Grants receivable	(805,016)	635,654
Prepaid expenses	(81,246)	68,603
Accounts payable	(228,369)	911,809
Accrued liabilities	(152,957)	95,133
Waiver settlement payable	-	(3,448,350)
	(198,863)	1,382,666
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>		
<b>Cash Flows from Investing Activities</b>		
Net change in certificates of deposit	(3,802,565)	(700,506)
Purchase of property and equipment	(6,715)	(33,344)
	(3,809,280)	(733,850)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>NET (DECREASE) INCREASE IN CASH</b>	(4,008,143)	648,816
<b>Cash and Cash Equivalents at Beginning of Year</b>	8,852,775	8,203,959
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 4,844,632	\$ 8,852,775

See accompanying notes

# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## NOTES TO FINANCIAL STATEMENTS

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September 30, 2016 and 2015

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Business Activity**

Area Agency on Aging of Western Michigan, Inc. (Agency) was founded in May 1974 as a Michigan nonprofit organization, designated by the Michigan Commission on Service to the Aging, to plan and coordinate Older American Programs in a nine county region of western Michigan. The Agency provides older persons and persons with disabilities in social and economic need with services designed to maintain independence and dignity through planning resource use, funding and coordinating supportive services, advocating on behalf of older adults, and educating communities about aging issues. The Agency is governed by a board of directors that consists of two representatives from each of the nine counties and the city of Grand Rapids.

#### **Financial Statement Format**

The Agency is required to report 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. Temporarily restricted net assets consist of \$35,000 funding for a future time period and the balance for various program restrictions. The Agency has no permanently restricted net assets.

#### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting.

#### **Cash and Cash Equivalents**

The Agency maintains its cash and cash equivalents at three financial institutions. Cash equivalents consist of money market funds. Deposits are insured by the Federal Deposit Insurance Corporation. From time to time during the year, the Agency may have cash on deposit in excess of the federally insured limit.

#### **Certificates of Deposit**

The Agency maintains investments in the form of certificates of deposit at several financial institutions. The certificates bear interest at varying rates up to 1% with a final maturity in December 2017 and penalties for early withdrawal. The carrying value of the certificates of deposit includes interest earned through the end of the year. The certificates of deposit are insured by the Federal Deposit Insurance Corporation.

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# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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September 30, 2016 and 2015

### **Grants and Accounts Receivable**

Grants receivable represents revenue earned from federal, state, or local funding sources for services purchased on behalf of Agency clients. Revenue is earned and recorded when the underlying service is provided or purchased for the Agency client.

Grants and accounts receivable are stated at the amount management expects to collect from balances outstanding. Management has reviewed the balances that comprise the various categories of grants receivable and determined such balances to be fully collectible. Accordingly, no provision for uncollectible accounts is included in the financial statements. If amounts become uncollectible, a provision for the potential loss will be charged to operations when that determination is made. All grants receivable are expected to be collected within one year.

### **Property and Equipment**

Expenditures for property related to the main facility are capitalized at cost, and depreciation is computed using the straight-line method over the estimate useful life of the asset. Equipment used by the Agency is purchased with resources from grants that specify that the title remain with the grantor. Accordingly, expenditures for equipment are recorded as expenses of the program benefited.

Donations of property and equipment are recorded as support at estimated fair value at the time received. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### **Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the restriction will be met in the same reporting period, the support will be recorded as unrestricted.

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# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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September 30, 2016 and 2015

### **Functional Allocation 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. Fund-raising costs are not material and are included in general and administrative expenses.

### **Income Taxes**

The Internal Revenue Service has determined the Agency is exempt from income taxes under provisions of Code Section 501(c)(3) whereby only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to federal income tax. The Agency currently has no unrelated business activity. Accordingly, no provision for income taxes has been recorded. In addition, the Agency qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). Tax positions taken are assessed for uncertainty and a provision may be recorded if a tax position is not likely to be sustained upon examination.

### **Subsequent Events**

Management has evaluated significant events or transactions occurring subsequent to September 30, 2016, for potential recognition or disclosure in these financial statements. The evaluation was performed through June 26, 2017 the date the financial statements were available for issuance.

### **Use of Estimates**

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. 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. Material estimates that are particularly susceptible to significant changes included the estimated Waiver settlement receivable. This is included within grants receivable on the statement of financial position.

# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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September 30, 2016 and 2015

### **Recently Issued Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The main provisions of this pronouncement include:

Two categories of net assets: net assets with donor restrictions and net assets without donor restrictions (versus the previous three categories)

Provide enhanced disclosures on board designated funds

Changes in accounting for underwater endowment funds

Requirement for all types of nonprofit organizations to report expenses by both their natural classification and their functional classification (previously only voluntary health and welfare organizations had this requirement)

New requirement to present both qualitative information on how the organization manages liquid resources and quantitative information that identifies assets available to meet cash needs for general operating expenditures within one year of the statement of financial position date

The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

In May 2014 and in subsequent amendments, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09 which amended *Revenue from Contracts with Customers* (Topic 606) of the Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Organization for annual periods beginning after December 15, 2018.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases* (Topic 842), which provides guidance for accounting for leases. The new guidance requires organizations to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective for annual periods beginning after December 15, 2019.

The Agency is currently evaluating the impact these items have on its financial statements.

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# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2016 and 2015

### NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2016	2015
Land	\$ 586,625	\$ 586,625
Building	2,880,703	2,873,988
	3,467,328	3,460,613
Accumulated depreciation	(358,066)	(250,758)
	\$ 3,109,262	\$ 3,209,855

### NOTE 3 - PENSION PLAN

Substantially all Agency employees are included in a Simplified Employee Pension - Individual Retirement Account (SEP - IRA) Plan. An employee becomes eligible on the first day of the plan period following 90 days of employment. The Agency contributes 10% of the gross amount of each employee's salary into the SEP - IRA. Total contributions were \$478,239 and \$447,276 for the years ended September 30, 2016 and 2015, respectively.

### NOTE 4 - CONCENTRATIONS OF RISK

Area Agency on Aging of Western Michigan, Inc. received significant funding from three governmental agencies during each of the years ended September 30, 2016 and 2015 as follows:

	Grants Receivable Prior to Netting of Unearned Advances		Public Support and Revenue	
	2016	2015	2016	2015
Aging and Adult Service Agency (AASA)	30%	31%	10%	10%
Kent County senior millage	22%	39%	23%	22%
Federally funded Medicaid waiver program	29%	28%	57%	59%



# AREA AGENCY ON AGING OF WESTERN MICHIGAN, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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September 30, 2016 and 2015

The Agency's operations are concentrated in services to senior citizens. In addition, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, AASA. Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by AASA. Changes may occur with little notice or inadequate funding to pay for the related cost, including the administrative burden, to comply with a change.

### **NOTE 5 - CONTINGENCIES**

The Agency participates in federal grant programs. These programs are subject to compliance audits. The audits of the programs for September 30, 2016 have been conducted and a Single Audit Report has been issued. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Agency expects such amounts, if any, to be immaterial.