
United Way of the Battle Creek and Kalamazoo Region

Financial Report
March 31, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors
United Way of the Battle Creek and Kalamazoo Region

We have audited the accompanying financial statements of United Way of the Battle Creek and Kalamazoo Region (the "Organization"), which comprise the statement of financial position as of March 31, 2018 and 2017 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.

Auditor's 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. Those standards require that we plan and perform the audits 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 United Way of the Battle Creek and Kalamazoo Region as of March 31, 2018 and 2017 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

July 12, 2018

United Way of the Battle Creek and Kalamazoo Region

Statement of Financial Position

March 31, 2018

	Unrestricted	Temporarily Restricted	Total
Assets			
Cash and cash equivalents	\$ 1,315,130	\$ 231,137	\$ 1,546,267
Investments (Note 4)	5,632,873	4,556,277	10,189,150
Pledges receivable (Note 3)	-	4,648,278	4,648,278
Grants receivable (Note 6)	-	450,000	450,000
Prepaid expenses and other assets	189,472	-	189,472
Beneficial interest in funds held at community foundations (Note 10)	795,790	-	795,790
Property and equipment - Net (Note 5)	770,550	-	770,550
Total assets	<u><u>\$ 8,703,815</u></u>	<u><u>\$ 9,885,692</u></u>	<u><u>\$ 18,589,507</u></u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 37,317	\$ -	\$ 37,317
Donor designations payable	89,240	1,038,099	1,127,339
Allocations and grants payable	1,605,529	-	1,605,529
Refundable advance	-	32,640	32,640
Accrued liabilities	170,499	-	170,499
Accrued postretirement benefit (Note 12)	289,378	-	289,378
Total liabilities	2,191,963	1,070,739	3,262,702
Net Assets			
Unrestricted:			
Undesignated	3,243,513	-	3,243,513
Board-designated (Note 9)	3,268,339	-	3,268,339
Temporarily restricted (Note 7)	-	8,814,953	8,814,953
Total net assets	<u><u>6,511,852</u></u>	<u><u>8,814,953</u></u>	<u><u>15,326,805</u></u>
Total liabilities and net assets	<u><u>\$ 8,703,815</u></u>	<u><u>\$ 9,885,692</u></u>	<u><u>\$ 18,589,507</u></u>

United Way of the Battle Creek and Kalamazoo Region

Statement of Financial Position

March 31, 2017

	Unrestricted	Temporarily Restricted	Total
Assets			
Cash and cash equivalents	\$ 1,750,440	\$ 231,137	\$ 1,981,577
Investments (Note 4)	5,716,909	4,888,997	10,605,906
Pledges receivable (Note 3)	-	5,132,628	5,132,628
Grants receivable (Note 6)	-	927,271	927,271
Prepaid expenses and other assets	334,499	-	334,499
Beneficial interest in funds held at community foundations (Note 10)	733,282	-	733,282
Property and equipment - Net (Note 5)	784,766	-	784,766
Total assets	<u><u>\$ 9,319,896</u></u>	<u><u>\$ 11,180,033</u></u>	<u><u>\$ 20,499,929</u></u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 104,931	\$ -	\$ 104,931
Donor designations payable	19,009	973,879	992,888
Allocations and grants payable	2,062,674	-	2,062,674
Refundable advance	-	36,380	36,380
Accrued liabilities	148,187	-	148,187
Accrued postretirement benefit (Note 12)	305,309	-	305,309
Total liabilities	2,640,110	1,010,259	3,650,369
Net Assets			
Unrestricted:			
Undesignated	3,317,095	-	3,317,095
Board-designated (Note 9)	3,362,691	-	3,362,691
Temporarily restricted (Note 7)	-	10,169,774	10,169,774
Total net assets	<u><u>6,679,786</u></u>	<u><u>10,169,774</u></u>	<u><u>16,849,560</u></u>
Total liabilities and net assets	<u><u>\$ 9,319,896</u></u>	<u><u>\$ 11,180,033</u></u>	<u><u>\$ 20,499,929</u></u>

United Way of the Battle Creek and Kalamazoo Region

Statement of Activities and Changes in Net Assets

Year Ended March 31, 2018

	Year Ended March 31			Total
	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains, Other Support, and Net Assets Released from Restrictions				
Contributions	\$ -	\$ 10,255,659	\$ -	\$ 10,255,659
Donor designations	-	(1,800,120)	-	(1,800,120)
Allowance for uncollectible pledges	-	(408,550)	-	(408,550)
Net campaign results	-	8,046,989	-	8,046,989
Campaign results - Prior year - Net	167,566	-	-	167,566
Foundation and corporate grants	244,178	102,796	-	346,974
Other contributions	512,312	42,755	-	555,067
Service fees	121,805	-	-	121,805
Net realized and unrealized gain on investments	160,798	-	-	160,798
Investment income - Net of expense of \$82,215 in 2018	186,664	-	-	186,664
Distribution from community foundations	298,000	-	-	298,000
Rental income	10,010	-	-	10,010
Miscellaneous income	298,435	-	-	298,435
Total revenue, gains, other support, and reclassifications	1,999,768	8,192,540	-	10,192,308
Net assets released from restrictions (Note 8)	9,547,361	(9,547,361)	-	-
Total revenue, gains, other support, and net assets released from restrictions	11,547,129	(1,354,821)	-	10,192,308
Expenses				
Program services:				
Gross allocations to agencies	9,345,112	-	-	9,345,112
Less donor designations paid	(1,800,120)	-	-	(1,800,120)
Net funds awarded/distributed	7,544,992	-	-	7,544,992
Community impact	942,318	-	-	942,318
Community service	888,103	-	-	888,103
Grants and initiatives	425,089	-	-	425,089
Total program services	9,800,502	-	-	9,800,502
Support services:				
Management and general	714,333	-	-	714,333
Fundraising	1,200,228	-	-	1,200,228
Total allocations and other expenses	11,715,063	-	-	11,715,063
Decrease in Net Assets	(167,934)	(1,354,821)	-	(1,522,755)
Net Assets - Beginning of year	6,679,786	10,169,774	-	16,849,560
Net Assets - End of year	\$ 6,511,852	\$ 8,814,953	\$ -	\$ 15,326,805

United Way of the Battle Creek and Kalamazoo Region

Statement of Activities and Changes in Net Assets

Year Ended March 31, 2017

	Year Ended March 31			Total
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains, Other Support, and Net Assets Released from Restrictions				
Contributions	\$ -	\$ 11,431,080	\$ -	\$ 11,431,080
Donor designations	-	(1,932,010)	-	(1,932,010)
Allowance for uncollectible pledges	-	(467,270)	-	(467,270)
Net campaign results	-	9,031,800	-	9,031,800
Campaign results - Prior year - Net	348,187	-	-	348,187
Foundation and corporate grants	349,054	48,290	-	397,344
Other contributions	222,125	-	-	222,125
Service fees	126,755	-	-	126,755
Net realized and unrealized gain on investments	255,298	-	-	255,298
Investment income - Net of expense of \$79,121 in 2017	184,084	-	-	184,084
Distribution from community foundations	298,000	-	-	298,000
Rental income	16,110	-	-	16,110
Miscellaneous income	220,017	-	-	220,017
Total revenue, gains, other support, and reclassifications	2,019,630	9,080,090	-	11,099,720
Net assets released from restrictions (Note 8)	10,612,846	(10,612,846)	-	-
Total revenue, gains, other support, and net assets released from restrictions	12,632,476	(1,532,756)	-	11,099,720
Expenses				
Program services:				
Gross allocations to agencies	9,561,649	-	-	9,561,649
Less donor designations paid	(1,932,010)	-	-	(1,932,010)
Net funds awarded/distributed	7,629,639	-	-	7,629,639
Community impact	945,888	-	-	945,888
Community service	957,634	-	-	957,634
Grants and initiatives	489,228	-	-	489,228
Total program services	10,022,389	-	-	10,022,389
Support services:				
Management and general	796,192	-	-	796,192
Fundraising	1,060,806	-	-	1,060,806
Total allocations and other expenses	11,879,387	-	-	11,879,387
Increase (Decrease) in Net Assets	753,089	(1,532,756)	-	(779,667)
Net Assets - Beginning of year	5,926,697	11,702,530	-	17,629,227
Net Assets - End of year	\$ 6,679,786	\$ 10,169,774	\$ -	\$ 16,849,560

United Way of the Battle Creek and Kalamazoo Region

Statement of Functional Expenses

Year Ended March 31, 2018

	Program Services				Support Services			Total
	Allocations and Grants	Community Impact	Community Service	Grants and Initiatives	Total	Management and General	Fundraising	
Salaries	\$ -	\$ 427,431	\$ 321,210	\$ 193,390	\$ 942,031	\$ 392,084	\$ 510,530	\$ 1,844,645
Employee benefits	-	81,163	64,808	19,247	165,218	74,451	88,890	328,559
Payroll taxes	-	28,996	22,610	14,333	65,939	26,598	34,522	127,059
Total salaries and related expenses	-	537,590	408,628	226,970	1,173,188	493,133	633,942	2,300,263
Net funds awarded	7,544,992	-	-	41,500	7,586,492	-	-	7,586,492
Contract and professional fees	-	48,246	19,367	95,432	163,045	76,087	160,182	399,314
Program evaluation expenses	-	25,000	-	-	25,000	-	-	25,000
211 contractual expenses	-	-	330,132	-	330,132	-	-	330,132
Supplies	-	20,743	4,112	11,754	36,609	6,055	13,115	55,779
Telephone	-	5,503	2,429	111	8,043	4,821	6,338	19,202
Postage and shipping	-	1,489	905	373	2,767	1,341	3,783	7,891
Occupancy costs	-	29,084	13,440	-	42,524	26,679	31,853	101,056
Travel	-	14,489	7,250	2,383	24,122	4,200	18,074	46,396
Board/Staff development	-	17,927	11,367	12,588	41,882	12,609	22,944	77,435
Printing, publicity, and promotion	-	147,131	47,441	32,129	226,701	4,713	207,088	438,502
Other organizational dues	-	19,539	8,236	716	28,491	15,630	20,379	64,500
Rental and maintenance of equipment	-	8,244	3,810	-	12,054	7,562	9,029	28,645
Depreciation	-	25,137	11,617	-	36,754	23,058	27,530	87,342
Miscellaneous	-	2,632	1,085	1,133	4,850	2,153	2,640	9,643
United Way Worldwide dues	-	39,564	18,284	-	57,848	36,292	43,331	137,471
Total functional expenses	\$ 7,544,992	\$ 942,318	\$ 888,103	\$ 425,089	\$ 9,800,502	\$ 714,333	\$ 1,200,228	\$ 11,715,063

United Way of the Battle Creek and Kalamazoo Region

Statement of Functional Expenses

Year Ended March 31, 2017

	Program Services				Support Services			Total
	Allocations and Grants	Community Impact	Community Service	Grants and Initiatives	Total	Management and General	Fundraising	
Salaries	\$ -	\$ 400,700	\$ 357,739	\$ 228,508	\$ 986,947	\$ 384,642	\$ 462,467	\$ 1,834,056
Employee benefits	-	92,395	82,258	19,127	193,780	85,306	97,730	376,816
Payroll taxes	-	27,846	26,240	13,445	67,531	25,714	33,358	126,603
Total salaries and related expenses	-	520,941	466,237	261,080	1,248,258	495,662	593,555	2,337,475
Net funds awarded	7,629,639	-	-	33,249	7,662,888	-	-	7,662,888
Contract and professional fees	-	74,420	41,813	117,332	233,565	152,525	70,586	456,676
Program evaluation expenses	-	28,500	-	23,835	52,335	-	-	52,335
211 contractual expenses	-	-	311,191	-	311,191	-	-	311,191
Supplies	-	20,341	1,808	8,451	30,600	2,504	6,599	39,703
Telephone	-	6,587	3,821	-	10,408	5,568	8,357	24,333
Postage and shipping	-	3,060	2,141	138	5,339	2,785	8,901	17,025
Occupancy costs	-	25,694	16,082	-	41,776	23,726	27,175	92,677
Travel	-	16,605	6,083	1,698	24,386	5,717	17,323	47,426
Board/Staff development	-	3,657	7,541	15,967	27,165	10,962	13,259	51,386
Printing, publicity, and promotion	-	146,199	35,874	26,918	208,991	3,681	205,139	417,811
Other organizational dues	-	19,769	13,737	50	33,556	18,774	23,507	75,837
Rental and maintenance of equipment	-	14,990	9,810	-	24,800	14,140	16,132	55,072
Depreciation	-	24,347	15,239	-	39,586	22,483	25,751	87,820
Miscellaneous	-	334	943	510	1,787	318	1,747	3,852
United Way Worldwide dues	-	40,444	25,314	-	65,758	37,347	42,775	145,880
Total functional expenses	\$ 7,629,639	\$ 945,888	\$ 957,634	\$ 489,228	\$ 10,022,389	\$ 796,192	\$ 1,060,806	\$ 11,879,387

United Way of the Battle Creek and Kalamazoo Region

Statement of Cash Flows

Years Ended March 31, 2018 and 2017

	Year Ended March 31	
	2018	2017
Cash Flows from Operating Activities		
Decrease in net assets	\$ (1,522,755)	\$ (779,667)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	87,342	87,820
Change in beneficial interest	(62,508)	(49,550)
Net realized and unrealized (gain) loss on investments	(160,798)	(255,298)
Change in allowance for uncollectible pledges	55,213	363,669
Changes in operating assets and liabilities which provided (used) cash:		
Pledges receivable	429,137	476,065
Grants receivable	477,271	65,000
Prepaid expenses and other	145,027	(142,418)
Accounts payable	(67,614)	(21,737)
Donor designations payable	134,451	(860)
Allocations and grants payable	(457,145)	69,276
Refundable advance	(3,740)	(113,620)
Accrued liabilities	22,312	(59,601)
Deferred revenue	-	(36,500)
Accrued postretirement benefit	(15,931)	(7,191)
Net cash used in operating activities	(939,738)	(404,612)
Cash Flows from Investing Activities		
Purchase of property and equipment	(73,126)	(6,799)
Purchases of investments	(1,000,000)	(1,302,908)
Proceeds from sales and maturities of investments	1,577,554	437,067
Net cash provided by (used in) investing activities	504,428	(872,640)
Net Decrease in Cash and Cash Equivalents	(435,310)	(1,277,252)
Cash and Cash Equivalents - Beginning of year	1,981,577	3,258,829
Cash and Cash Equivalents - End of year	\$ 1,546,267	\$ 1,981,577

Note 1 - Nature of Entity

United Way of the Battle Creek and Kalamazoo Region (the "Organization") is a nonprofit organization whose vision is for a vibrant community where all people realize their full potential. The Organization is an independent and autonomous organization governed by a volunteer board of directors.

A community of connected individuals, all people, united and working together for the benefit of all is at the heart of what United Way represents. The Organization recognizes that we are all part of something greater and that a tear anywhere weakens the entire social fabric.

The Organization advances the common good in the Battle Creek and Kalamazoo Region by creating opportunities for a better life for all. The Organization focuses on education, income, and health - the building blocks for a good quality life. We all win when a child succeeds in school, when a family becomes financially stable, and when people have good health.

United Way recruits people and organizations that bring the passion, expertise, and resources needed to get things done. Individuals can give, advocate, and volunteer. That's what it means to LIVE UNITED.

The financial statements have been prepared in accordance with the accounting principles and financial statement format set forth in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Not-For-Profit Organizations*. The financial statements of the Organization are maintained on an accrual basis.

Note 2 - Summary of Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments - Investments in debt and equity securities are recorded at fair value based on quoted market prices. Investments sold are valued using the specific-identification method.

Pledges Receivable - Contributions generated in the annual fund drive are recorded as receivables in the year pledged. These contributions are recognized as revenue in the year for which the contributions were received. All pledges are expected to be collected by the end of the calendar year following the fall campaign. The pledges are reported net of allowance for doubtful accounts. The allowance for doubtful accounts is estimated by management using a 10-year rolling average adjusted for economic conditions, which for the years ended March 31, 2018 and 2017, approximated 5 percent. Additionally, campaign pledges are 100 percent allowed for if the balance remains 12 months after the campaign has ended.

Grants Receivable - The Organization has received unconditional commitments, which are expected to be collected within the next year. Grant revenue is recorded as revenue when the commitment is received. Management believes the receivable is fully collectible and therefore has not recorded an allowance as of March 31, 2018 and 2017.

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future, upon initial recognition, are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Designations to Agencies - The Organization receives pledges from donors designating the resources to specified agencies. The Organization collects these resources and disburses the funds to the designated agencies. Designated pledges are excluded from contributions revenue and the related disbursements to specified agencies are excluded from allocations in the statement of activities and changes in net assets.

The Organization contracts with the local Combined Federal Campaign (CFC) coordinating committee to manage the CFC for federal employees in Kalamazoo and Calhoun counties. During the year ending March 31, 2017, the Organization complied with the requirements of the CFC campaign to honor designations made to each member agency by distributing a proportionate share of receipts based on donor designations to each member agency. The Organization no longer has a contract with the CFC for the year ended March 31, 2018.

Donated Services and Assets - Donated materials and marketable securities are recorded at fair value at the date of gift. No amounts have been recorded in the financial statements for donated services; however, a substantial number of volunteers have donated significant amounts of time to the Organization's program services and its fundraising campaign.

Functional Allocation of Expenses - The costs of providing program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different amounts.

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. In addition, the Organization also has board-designated net assets, which are unrestricted net assets that have been set aside for specific purposes by the board as reported within Note 9.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS) or other applicable taxing authorities.

Concentrations - The Organization maintains cash balances at four banks and the accounts are insured for up to \$250,000 per bank. In addition, the Organization maintains accounts at investment companies that are insured for up to \$500,000 (with a limit of \$100,000 for cash equivalents) by the Securities Investor Protection Corporation. The Organization evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

The Organization's annual fundraising campaigns are concentrated in the City of Battle Creek and Kalamazoo County, Michigan. In addition, approximately 44 percent of the Organization's 2018 and 2017 campaign revenue was donated by three companies and their employees.

Upcoming Accounting Changes - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending March 31, 2019 and thereafter and must be applied on a retrospective basis. The Organization expects the impact on the financial statements to include a change to reporting net assets to with donor restrictions or without donor restriction, adding liquidity disclosures, and enhancing disclosures for functional allocation.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending March 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The main revenue stream of the Organization is not expected to be significantly impacted by the standard, but the Organization is further evaluating the less significant revenue streams to determine if they may be impacted by the standard.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including July 12, 2018, which is the date the financial statements were available to be issued.

Note 3 - Pledges Receivable

Pledges receivable consist of the following:

	2018	2017
Pledges:		
Current campaign	\$ 5,056,828	\$ 5,575,922
First prior campaign	541,349	553,976
Second prior campaign	482,690	380,106
Total pledges	6,080,867	6,510,004
Less allowance for uncollectible pledges:		
Current campaign	408,550	467,270
First prior campaign	541,349	530,000
Second prior campaign	482,690	380,106
Total allowance for uncollectible pledges	1,432,589	1,377,376
Net pledges receivable	<u>\$ 4,648,278</u>	<u>\$ 5,132,628</u>

Note 4 - Investments

Investments stated at fair value at March 31 include the following:

	2018	2017
Money market mutual funds	\$ 1,724	\$ 517,395
Corporate bonds	4,905,061	4,520,037
Foreign bonds	45,319	-
Government securities	1,636,293	1,385,969
Mutual funds	2,814,361	3,423,356
Exchange traded funds	786,392	759,149
Total	<u>\$ 10,189,150</u>	<u>\$ 10,605,906</u>

The primary objective of the Organization's investment policy is to provide capital preservation, with appropriate income generation and conservative growth as secondary concerns. This objective is designed to safeguard the portfolio's assets and preserve real purchasing power while earning investment returns that are commensurate with a determined risk tolerance and sufficient to meet the Organization's operational requirements. Liquidity is a primary concern in an effort to allow for funds to be deposited and withdrawn based on campaign receipts and operational needs.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Note 5 - Property and Equipment

The cost of property and equipment and depreciable lives are summarized as follows:

	2018	2017	Depreciable Lives - Years
Land	\$ 170,666	\$ 170,666	-
Buildings and building improvements	1,806,888	1,801,604	3-40
Land improvements	99,539	65,835	15-30
Furniture, fixtures, and equipment	<u>631,966</u>	<u>597,827</u>	3-10
Total cost	2,709,059	2,635,932	
Accumulated depreciation	<u>(1,938,509)</u>	<u>(1,851,166)</u>	
Net carrying amount	<u>\$ 770,550</u>	<u>\$ 784,766</u>	

Depreciation expense for the years ended March 31, 2018 and 2017 aggregated \$87,342 and \$87,820, respectively.

Note 6 - Grants Receivable

The Organization has received unconditional commitments, which will be payable over the next year. The funds are to be primarily used for operations, community impact, and 211 support. In 2017, the grants, upon initial recognition, were discounted to present value using a discount rate of .87 percent. The grants receivable at March 31 are summarized below.

	2018	2017
Grants receivable expected to be collected in:		
Less than one year	\$ 450,000	\$ 485,000
Over one year	-	450,000
Discount to present value	-	<u>(7,729)</u>
Total	<u>\$ 450,000</u>	<u>\$ 927,271</u>

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets, which are restricted because of time or purpose restrictions, consist of the following at March 31:

	2018	2017
Net campaign results	\$ 8,046,989	\$ 9,031,800
Grant receivable	450,000	927,271
Community service programs	<u>317,964</u>	<u>210,703</u>
Total temporarily restricted net assets	<u>\$ 8,814,953</u>	<u>\$ 10,169,774</u>

Note 8 - Net Assets Released from Restriction

Net assets that were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for community service programs for the years ended March 31, 2018 and 2017 totaled \$525,561 and \$610,413, respectively. Net assets released from restrictions relating to the net campaign results for the years ended March 31, 2018 and 2017 totaled \$9,021,800 and \$10,002,433, respectively.

Note 9 - Board-designated Net Assets

Board-designated net assets consist of the following:

	2018	2017
Beneficial interest in assets held at community foundations	\$ 795,790	\$ 733,282
Property and equipment fund	1,219,218	1,233,435
Memorial funds	769,590	797,623
Herrick Endowment Fund	250,000	250,000
American Red Cross Disaster Fund	-	104,610
Service Learning/Battle Creek Project Impact Funds	146,938	146,938
Community Investment Fund	86,803	96,803
Total	\$ 3,268,339	\$ 3,362,691

Note 10 - Community Foundations

Beneficial interest in funds held at community foundations includes amounts held by the Battle Creek Community Foundation (BCCF) and the Kalamazoo Community Foundation (KCF) for the benefit of the Organization. The board of directors approved contributions to the respective foundations from the above-mentioned board-designated net assets to establish these endowments.

The Organization has accounted for the transfer of such assets as a beneficial interest in funds held by community foundations. BCCF and KCF refer to such funds as agency fund endowments. Therefore, an asset has been established on the Organization’s statement of financial position for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be received by the Organization. The current value of these funds at March 31, 2018 and 2017 was \$795,790 and \$733,282, respectively, and is included in board-designated net assets in the statement of financial position.

Several contributions have been made to these funds in addition to other funds held at BCCF and KCF to benefit the Organization. Contributions can be made to the funds, but only expendable income is available to the Organization. BCCF and KCF maintain variance power, which, as a result, requires that the assets they hold not be recorded as assets of the Organization. The value of the funds held at BCCF and KCF for the benefit of the Organization was \$2,346,193 and \$3,377,579, respectively, at March 31, 2018. The value of the funds held at BCCF and KCF for the benefit of the Organization was \$2,323,758 and \$3,346,595, respectively, at March 31, 2017. Earnings are available for distribution to the Organization at the discretion of the foundations and are therefore not reflected as revenue in the financial statements until received by the Organization.

Note 11 - Retirement Plan

Substantially all employees of the Organization participate in a defined contribution pension plan. Substantially all employees are immediately eligible under the plan and are fully vested after three years of service. Contributions, equal to 10 percent of compensation as defined, amounted to approximately \$159,300 and \$144,000 for the years ended March 31, 2018 and 2017, respectively.

Note 12 - Postretirement Benefit Payable

The Organization provides certain healthcare benefits for eligible retired employees. The Organization will pay the portion of the insurance premium equal to 80 percent of the cost of Medicare supplemental coverage from its general assets, with the remainder of the premium to be paid by the retiree.

The Organization has recognized the unfunded status of the postretirement plan in the statement of financial position. The Organization does not fund the obligation with any assets.

The plan obligations are measured as of the date of the employer's statement of financial position, as well as certain effects on net periodic benefit cost of the next fiscal year from the delayed recognition of the gains or losses and prior service costs or credits. The Organization's measurement date has historically been March 31. In addition, there are currently no amounts of estimated net loss or prior service cost for the plan that are required to be amortized.

The net periodic postretirement benefit cost and accrued postretirement benefit payable consist of the following:

	2018	2017
Service cost	\$ -	\$ -
Interest cost at 7 percent	18,918	19,594
Actual costs different than projected	(15,725)	(1,384)
Net postretirement benefit cost	3,193	18,210
Current year premiums paid	(19,124)	(25,401)
Total	(15,931)	(7,191)
Accrued postretirement benefit payable - April 1	305,309	312,500
Accrued postretirement benefit payable - March 31	\$ 289,378	\$ 305,309

The estimated benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

Years Ending March 31	Amount
2019	\$ 23,000
2020	24,000
2021	26,000
2022	27,000
2023	28,000
2024-2027	120,000

Note 12 - Postretirement Benefit Payable (Continued)

The following actuarial assumptions were used in computing the plan's net postretirement benefit cost:

	March 31, 2018 and 2017
Weighted average discount rate	7 percent
Mortality	RP-2014 Mortality Table
Healthcare trend rate	Through 2020 - 8% per annum 2021-2025 - 6% per annum 2026-2030 - 5% per annum After 2030 - 4% per annum

The effect of a one percentage point increase or decrease in the assumed healthcare trend rates for each future year will result in the following:

	2018	2017
One percentage point increase:		
Service and interest cost	\$ 20,658	\$ 21,242
Accumulated postretirement benefit obligation	314,243	328,858
One percentage point decrease:		
Service and interest cost	17,348	18,095
Accumulated postretirement benefit obligation	266,947	283,906

Note 13 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following table presents information about the Organization's assets measured at fair value on a recurring basis at March 31, 2018 and 2017 and the valuation techniques used by the Organization to determine those fair values.

Level 1 - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Level 2 - Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

Note 13 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Organization's policy is to recognize transfers between levels of the fair value hierarchy during the reporting period. For the years ended March 31, 2018 and 2017, there were no transfers between levels of the fair value hierarchy.

Assets Measured at Fair Value on a Recurring Basis at March 31, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2018
Investments:				
Money market mutual funds	\$ 1,724	\$ -	\$ -	\$ 1,724
U.S. equity mutual funds	1,468,982	-	-	1,468,982
Foreign equity mutual funds	516,970	-	-	516,970
U.S. fixed-income mutual funds	828,409	-	-	828,409
Foreign fixed-income bond funds	-	45,319	-	45,319
U.S. equity exchange-traded fund	786,392	-	-	786,392
U.S. government obligations	-	1,636,293	-	1,636,293
U.S. corporate obligations	-	4,905,061	-	4,905,061
Total investments	<u>\$ 3,602,477</u>	<u>\$ 6,586,673</u>	<u>\$ -</u>	<u>\$ 10,189,150</u>
Beneficial interest in funds held at community foundations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 795,790</u>	<u>\$ 795,790</u>

Assets Measured at Fair Value on a Recurring Basis at March 31, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2017
Investments:				
Money market mutual funds	\$ 517,395	\$ -	\$ -	\$ 517,395
U.S. equity mutual funds	1,167,421	-	-	1,167,421
Foreign equity mutual funds	369,140	-	-	369,140
U.S. fixed-income mutual funds	1,824,418	-	-	1,824,418
Foreign fixed-income mutual funds	62,377	-	-	62,377
U.S. equity exchange-traded fund	759,149	-	-	759,149
U.S. government obligations	-	1,385,969	-	1,385,969
U.S. corporate obligations	-	4,520,037	-	4,520,037
Total investments	<u>\$ 4,699,900</u>	<u>\$ 5,906,006</u>	<u>\$ -</u>	<u>\$ 10,605,906</u>
Beneficial interest in funds held at community foundations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 733,282</u>	<u>\$ 733,282</u>

Note 13 - Fair Value Measurements (Continued)

The fair value of investments at March 31, 2018 and 2017 as disclosed above does not include certificates of deposit that are classified as investments on the statement of financial position since they are appropriately recorded at cost. There were no certificates of deposit held at March 31, 2018 and 2017.

The Organization holds a beneficial interest in the assets of community foundations, which was determined primarily based on Level 3 inputs. The Organization estimates the fair value of these investments based on the underlying value of the investments making up the investment pool. These investments include fixed-income, equity, and alternative investments.

Income from community foundations, which consists substantially of interest, dividends, and realized gains, is to be used for unrestricted purposes. The Organization has recorded an asset in the amount of the present value of future benefits, which approximates the fair value of the future community foundations' pooled investments. Annually, a percentage of the principal balance in the account becomes available to the Organization. The Organization has a process in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. This process includes review of information and communications received from the community foundations. Significant increases or decreases in any of the inputs in isolation would result in significantly lower or higher fair value measurements.

Changes in beneficial interest in assets of community foundations measured at fair value on a recurring basis for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Balance at April 1	\$ 733,282	\$ 683,732
Change in beneficial interest	62,508	49,550
Balance at March 31	<u>\$ 795,790</u>	<u>\$ 733,282</u>

Of the Level 3 assets still held by the Organization at March 31, 2018 and 2017, the change in beneficial interest was an increase of \$62,508 and \$49,550, respectively, which is recognized as a component of income in the accompanying statement of activities and changes in net assets.

Note 14 - Endowments

The Organization has adopted investment and spending policies for endowment assets that attempt to provide assurance of the continuous financial solvency of the Organization and to provide flexibility for new organizational directions. The primary investment objective is to provide capital preservation with appropriate income generation and conservative growth as secondary concerns. The policies adopted by the Organization work together to achieve this objective.

The finance committee determines the estimated amount to be distributed from the fund based on budgetary needs of the Organization and returns on the investments. This is consistent with the Organization's objective to avoid erosion of the endowment's principal.

Note 14 – Endowments (Continued)

Following is a summary of the Organization’s board-designated net asset composition as of March 31, 2018 and 2017 and the changes in the board-designated net assets during the years ended March 31, 2018 and 2017:

	<u>Unrestricted</u>
Board-designated endowment net assets at April 1, 2016	\$ 250,000
Investment income	9,728
Appropriation of endowment net assets for expenditures	<u>(9,728)</u>
Board-designated endowment net assets at March 31, 2017	250,000
Investment income	9,013
Appropriation of endowment net assets for expenditures	<u>(9,013)</u>
Board-designated endowment net assets at March 31, 2018	<u><u>\$ 250,000</u></u>